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GENERAL

Journal Views Regional Conflicts After Cold War
93CM0374A Beijing BANYUETAN [SEMIMONTHLY
TALKS] in Chinese No 315, 10 Jun 93 pp 53-56

[Article by Tang Tianri (0781 1131 2480), senior editor of XINHUA News Agency and researcher at the World Issues Research Center: "How To View Post-Cold War Regional Conflicts"]

[Text] Enormous changes have already occurred in the contemporary world situation, and the end of the U.S.-Soviet Cold War and of the bipolar structure has caused the world to enter a new historical era. Although the danger in the past of a confrontation between the two superpowers' causing a world war no longer exists, the regional balance of power was broken and various forces accelerated the splitting up of combinations, thereby stimulating many new unstable factors. Thus, some new changes have appeared in regional conflicts, and the world is still turbulent and unstable. How should we look at the new changes in post-Cold War regional conflicts?

1. From a look at the regions in which conflicts occur, we see: in the Cold War era regional conflicts and limited wars were mainly concentrated in regions of Asia, Africa, and Latin America; after the end of the Cold War, Europe, which had been called "the oasis of peace," became the center of turbulence in the contemporary world.

In the over 40-year history of the U.S.-Soviet Cold War era, there occurred in the world a total of more than 170 regional conflicts and limited wars, of which: 86 in Asia, or 50 percent of the total; 54 in Africa, or 31 percent of the total; 26 percent in Latin America, or 15 percent of the total; and seven in Europe, or 4 percent of the total. In the same period of time, there occurred in the world 11 limited wars involving more than 500,000 people, of which there were nine in Asia, or 82 percent of the total. This shows that in the Cold War era Asia was the region in which regional conflicts and limited wars were most frequent and most fierce.

After the disintegration of the Soviet Union and the end of the Cold War, in the integrated part of the European and Asian mainlands, i.e., from the Balkans and Caucasus to Central Asia, there was formed a "seismic belt" in which conflicts and wars were concentrated. In 1992 about 20 armed conflicts and limited wars broke out in the world; of them the majority occurred in this belt, and their scale and intensity far exceeded those of other regions.

In the Balkans, the chaos caused by war is mainly concentrated in areas of the former Yugoslavia. The flames of war were first ignited in Slovenia; they went on to burn Croatia, after which they spread to the Republic of Bosnia-Herzegovina. The latter war, which has lasted over the past one year, in both scale and intensity is the biggest war in postwar Europe. It has been difficult for the international community's many mediations and

intercessions to be effective, and the results of the United Nations' dispatch and stationing of peacekeeping troops have been miniscule. Recently, first the Serbian parliament in Bosnia-Herzegovina rejected the Vance-Owens package peace plan, following which the Serbian voters in Bosnia-Herzegovina voted to also reject this plan. The Bosnia-Herzegovina conflict faces the danger of military intervention and expansion of the flames of war. In the regions of Macedonia and Kosovo, the situation is very tense. If conflict breaks out in these two regions, it will certainly touch off a chain reaction in other Balkan countries.

In the Caucasus region, after the disintegration of the Soviet Union, the armed conflicts in three countries—Armenia, Azerbaijan, and Georgia—have been constantly escalating. Some have developed into wars; for instance, the war between Armenia and Azerbaijan over the question of which one the Nagorno-Karabakh area belongs to, has gone on for several years. In Georgia's (South Ossetia) and Abkhazia areas, Moldova's Dniester River area, and Russia's North Caucasus area, military conflicts are becoming increasingly fierce. In the Central Asia region, after five countries became independent the situation in some republics became unstable, and an armed conflict occurred in Dushanbe, the capital of the Republic of Tajikistan.

In comparison with the turbulent European situation, the situation in the post-Cold War Asian-Pacific Region is relatively stable and its economy is growing fast. In regional hot spots like Cambodia and Afghanistan left over from the Cold War, the background of U.S.-Soviet contention and confrontation has already vanished, and the conflicts have basically changed into internal conflicts.

2. From a look at the reasons for the occurrence of conflicts, we see: the nationality, territorial, and religious contradictions, which for a long time were covered up by U.S.-Soviet contention, sharpened after the collapse of the bipolar structure, and regional conflicts and limited wars were formed.

The rise of nationalism is an important reason for the difficulty in suppressing regional conflicts. Nationalism is manifested in protectionism and egoism in economics, in separatism and inclination toward independence in politics, as well as exclusivism and violent action in nationality relations. The "seismic belt" from the Balkans and Caucasus to Central Asia, which was mentioned above, is part of the newly erupting regional conflicts. In this belt are more than 100 nationalities, and they believe in various different religions; in addition, historically there are accumulated grievances and territorial disputes. Thus a complex situation has arisen. The separation of nationalities caused the former Yugoslavia to split into five parts, Czechoslovakia to split into two parts, and the former Soviet Union to split into 15 parts. The breakup of nations and states, coupled with territorial disputes and religious contradictions, initiated a series of regional conflicts and limited wars.

The development of the forces of Islamic fundamentalism in the Middle East and North Africa region, coupled with old nationality and territorial disputes, has made this "hot spot" region even more unstable. In some southern African countries, conflicts and the chaos caused by war have continued for a long time without letup, e.g., in South Africa, Angola, Mozambique, etc.; almost all of them have a racial or a tribal or nationality background. In Europe the spread of nationalism has led to fierce conflicts in this region. At present in Europe, there are several dozen places in which there is a demand for national independence; and they are not only in the countries of East Europe and of the Commonwealth of Independent States, but also in the countries of West Europe, e.g., in Britain the Northern Ireland issue, in Belgium the Walloon and Flemish peoples' demand for independence, in France the Corsican independence movement, in Spain the Basque independence movement, etc. In particular, the rise of the forces of nationalism, and the redrawing of the maps of the former Yugoslavia and the former Soviet Union, have broken the rule of "the inviolability of borders since World War II," making the situation in this region even more explosive.

Moreover, the savage actions of neofascists and ultrarightist forces in Germany and other West European countries have led to violent incidents of hating foreigners and excluding foreigners. In 1992, in Germany alone there occurred more than 4,850 violent incidents of this type, and many foreigners were brutally murdered. This has been a great shock to the world.

At present the trend toward national separatism in some regions of the world is still developing, but it will not become like some people have categorically asserted, i.e., the more than 3,000 nations now existing in the world that want to become separate will become independent countries. Today there are 182 member countries in the United Nations, and the great majority of them are multinational countries. The nationalities of these countries live together, and their political and economic mutual ties and mutual dependence are growing day by day, and some of them have been blended into one entity. Observers point out that, for the great majority of countries, national separatism causes the breakup of a country and is not a good thing. It is neither advantageous for the existence of the nationalities themselves nor for the peace and development of the world.

3. From a look at the situation in which great powers get involved in regional conflicts, we see: on the basis of their own interests, not the interests of their bloc, the Western great powers decide to what degree and in what manner they will get involved in regional conflicts, and decide whether to take part in regional conflicts or to fill a "vacuum."

After the drastic changes in the Soviet Union, the United States and other Western countries, proceeding from the interests of each, at the beginning of 1991 formed a multinational force to wage a large-scale war—the Gulf

War. Subsequently, in mid-1993 the United States struck Iraq with an air raid. That the United States so categorically and resolutely used military force to strike Iraq was because the Gulf region touches on the U.S. strategic interests and economic interests; at the same time, by fighting a quick battle to force a quick decision, it did not risk a "Vietnam-type" or "Lebanon-type" war.

However, with regard to the conflict in the Yugoslav region, up to now it has been very difficult for the United States and other Western countries to make a decision to intervene militarily on a large scale, because the former Yugoslav region is not like Iraq. Here there are many mountains and dense forests, the terrain is complex, nationalities live jumbled together, objectives are unclear, and suppression will not be easy. Observers think that if the Western countries dispatch aircraft to conduct raids, it will be difficult to obtain the expected results, and it could put the UN peacekeeping forces in danger of suffering a disastrous retaliation. If the Western countries dispatch ground forces to carry out intervention, this could even more arouse a "long-term resistance" by the people in this region, thereby falling into the quagmire of a "Vietnam-type" or "Lebanon-type" war.

According to an estimate made by U.S. military observers, to just suppress the Bosnia-Herzegovina civil war, at least 100,000 troops would be needed and at the minimum they would have to fight 20 years. History has already shown to people that the Serbian people of the former Yugoslav region will not easily yield to gunfire. In view of these circumstances, the Bush administration clearly ruled out the possibility of U.S. ground troop participation in the war. Although President Clinton recently asserted that he would take military action against the Serbs in Bosnia-Herzegovina, he also stated that "America does not want to dispatch ground forces to fight in the war." NATO also abandoned a plan to dispatch 100,000 troops to open a "land corridor" in the former Yugoslavia.

In addition, the approach by the United States and other Western countries to the UN Security Council's taking peacekeeping action to suppress regional conflicts is to maintain a pragmatic attitude and manifest a clear selectivity. Without mincing words Clinton once said: "A powerful United Nations cannot take the place of a powerful American national defense and American diplomacy. When we can act together with the United Nations, we will do so; when we must go it alone, we will not beat about the bush." However, this way of doing things will only further worsen the regional situation.

4. From a look at the consequences of the conflicts, we see: although the post-Cold War regional conflicts will not cause a new world war, they aggravate tense situations and seriously endanger the peace and development of regions.

When talking about the results of the current regional conflicts, public opinion circles in the West point out: "The full-scale Cold War has now turned into a bloody

hodgepodge of regional conflicts. Today there are 30 to 50 limited wars raging in various parts of the world; every day several thousands of people are killed in them, and a large quantity of weapons and equipment are consumed." Take, for example, the Bosnia-Herzegovina War: up to now 200,000 people have lost their lives, several hundreds of thousands of people have been wounded or injured, close to 3 million people have been reduced to destitute, homeless refugees, and direct economic losses have reached a total of \$100 billion. In Bosnia-Herzegovina 80 percent of the economic facilities have been wrecked, more than 50 percent of the housing has been destroyed, it is impossible for people to engage in normal production, and life has become miserable.

In Africa a third of the more than 50 countries there in the past year experienced, to different degrees, war and conflict; those in Somalia and Liberia were especially serious. In these countries the flames of war have caused the death or wounding of a large number of the common people, production to come to a standstill, and refugees to flee the country, with disastrous effects on the national economy and the people's life. According to one expert's estimate, because of the chaos caused by war and the effects of drought, the growth rate of the African economy in 1992 was only 1.9 percent, a drop of 0.4 percent from the previous year and the lowest growth rate in recent years. Presently, 204 million African people live below the poverty line, about a third of the total population.

After the Cold War period, the daily overflow of refugees has brought disaster to the international community. The total number of refugees in the world has now reached 18 million. A large number of migrants from the regions of East Europe and the former Soviet Union have poured into West Europe. There are now more than 12 million refugees in West Europe. This steady stream of refugees has become one of the factors endangering world prosperity and stability.

The Western powers make use of this new post-Cold War situation to vie with each other in selling munitions, thereby stimulating and intensifying regional arms races. According to incomplete statistics, in recent years in Middle East countries the volume of business in importing weapons and equipment exceeded \$30 billion; weapons imported from the United States accounted for 80 percent and amounted to \$24 billion. In Asia some countries and regions are separately vying with each other in increasing military expenditure; at the same time the disintegration of the Soviet Union has caused a large-scale proliferation of lethal weapons, which has become an important factor in intensifying regional arms races.

The world is complex. People originally thought that the end of the Cold War would bring peace to the world. However, in fact the old regional conflicts have not been

suppressed, and new regional contradictions and conflicts are constantly occurring. The world is not peaceful and tranquil.

UNITED STATES

CASS on Characteristics of U.S. Foreign Policy
93CM0424A Beijing MEIGUO YANJIU [AMERICAN STUDIES] in Chinese No 2, 5 Jun 93 pp 7-28

[Article by Zi Zhongjun, Director of Institute of American Studies, Chinese Academy of Social Sciences: "The United States on the Stage of the Late Half of the Twentieth Century—Introduction of 'The Postwar History of Diplomacy of the United States: From Truman to Reagan'" (This book is edited by Zi Zhong-jun; it will be published by the World Knowledge Publisher)]

[Excerpt] [passage omitted] What is the future trend of the United States' diplomacy?

First of all, the United States is still a superpower. It still claims to be the world leader and this will not change. Moreover, since it is the only superpower now, this leadership consciousness might be even stronger, subjectively speaking, because it is no longer limited to the "free world" only. As a result, even though the Bush government's practice of "emphasizing foreign rather than domestic policies" was criticized during the struggles between the two political parties, the United States did not retreat to isolationism to concentrate on handling domestic affairs. During the presidential campaign, President Clinton stressed again that domestic economic problems would be his priority concern. However, shortly after he became president, he had to pay considerable attention to a series of complicated international problems. In the midst of various power changes and reorganizations taking place all over the world, the United States is still using its influence, trying to make the world order develop in the way it wants. On 18 February, 1992, the U.S. Department of Defense proposed a global defence strategy draft, which clearly stated that the United States must maintain global military prestige. The purpose of this was to "prohibit the emergence of an opposing superpower in Europe, Asia, or the former Soviet Union." It also wanted to establish a world order that discouraged the industrialized countries from challenging the leading position of the United States. This proposal listed a series of these countries' names in this regard, including some of the U.S.'s allies, and gave detailed illustration according to geographical divisions. When this proposal was disclosed through newspapers in March, it immediately aroused loud controversies from inside and outside the country. Others all held that the report reflected the U.S.'s ideology to dominate the world. Inside the United States, the opposing party held that the report would not work, and outside the United States, other countries were burdened with suspicion. As a result, the second draft, approved by the Secretary of Defense, appeared in April, which changed the aggressive tone of the first

draft. The major revision was the additional emphasis on cooperations with its allies and friendly countries. The revision process of this document reflected the struggles between contrasting dispositions that had long existed inside the United States government. In the past, the parties in these struggles were named "the Hawks" and "the Doves." In reality, the distance between the two was only a matter of degree and strategy. The ultimate goal of maintaining the United States as the only superpower has not changed. Under this premise, any substantial policies and methodologies might be subject to change and adjustment.

The basis for maintaining the "leadership" position is still cooperation with the original allies. Although the common goal of the allies is much different from the original one held when they first grouped, to the United States, retaining allies is very important. Therefore, it is still necessary to have the "North Atlantic Treaty Organization." Other organizations such as the "European Security Organization" and the "Group Seven Executive Meeting" also provided the settings for cooperation. In the more internationalized organizations, such as the "United Nations," "International Monetary Fund," and the "World Bank," the United States still strives to cooperate with its allies in West Europe and Japan to form an invisible and loose nucleus. So far this loose alliance is able to last due to mutual needs. However, just as mentioned above, the allies are no longer bound by treaties to follow the United States. Therefore, the United States should cooperate with them more whenever it wants to take any actions, and it should respect and consider their opinions more. Bush's so-called "lateralism" differs from the arbitrary acts under Reagan's "unilateralism" in that the United States' cooperative relationship with its allies is primary; and depending on different situations, other countries are included secondarily.

As far as military force is concerned, the end of the "cold war" will not bring a dramatic reduction. The United States still needs to maintain its superiority in arms. Since the enemy is not united, it might need to adjust the type of weapons and the key strategy for development. When it needs to take military action in tropical areas, it will continue to ask Japan and the western developed countries to share more responsibilities. Although the United States has always opposed nuclear proliferation, in the past it had only paid attention to military preparations in dealing with the former Soviet Union. Hereafter, the United States will shift its emphasis to preventing dissemination of nuclear weapons and other top military technologies. It will also use its power and pressure to prohibit military sales by other countries, and demand such sales match its strategic deployment.

In regard to the economy, the U.S.'s war-oriented group is strongly aware of its diminished international competitiveness. In principle, the United States still promotes economic freedom. However, when its competitive position is endangered, protectionism in some areas starts to rise. As it is faced with regionalism in the global economy and collectivism, the U.S.'s goal is to achieve unification of international economic system. It also will not give up any hard work in this respect. However, in the mean time, it also needs to make alternative preparations. The North America Free Trade Agreement is considered an option to enable it to take both defensive and offensive actions. As far as "offense" is concerned, NAFTA may strengthen the U.S.'s competitiveness compared with other countries and localities. Let's suppose the regional economic consortiums that boycotted the United States were to become the mainstream, with NAFTA, the United States would still have a base for it to retreat to. Nevertheless, it is too early to prophesy the occurrence of the latter. We cannot think that establishing NAFTA implies the U.S.'s intention to stand back and retreat to the Americas.

At present, the U.S.'s strong point, or its most confident area, is still its political ideology and cultural territory. Within this domain, it will continue to be on the attacker's side. In addition, since the Democratic Party has traditionally boasted its great concern with "human rights," during the period of time from now on, the United States will take more advantage of its ideologies and emphasize "human rights" principles when it promotes its foreign policies in order to promote its values of "freedom" and "democracy." However, in implementation in reality, there is a certain limitation in applying this principle. Therefore, in fact, the United States will still adopt double or multiple standards in dealing with different targets. The main opposition force that the United States and the whole Western civilization will face in the future will probably be the Islamic religion and culture. One of the causes of the problems that the United States has encountered in the Middle East, apart from other factors, has been fundamental Islamic dogmatism. In this place, the United States has demonstrated a high degree of practicality in its policies; its "human rights" foreign policy did not achieve its usual effect.

All in all, when there are dramatic changes in the world pattern and in reorganizations of various powers, the United States certainly has to make adjustments continuously to change its military deployment and concrete policies. However, it is more likely for the United States to continue than to change its main ideologies and their influence on foreign policy or its pattern of actions and behavioral modes as a post-war superpower, which are deeply rooted in tradition.

NEAR EAST, SOUTH ASIA

Tenor of Israel on Golan Heights Issue Assessed

93CM0483A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 232, 23 Aug 93 pp 22-23

[Article by Pan Guang (3382 0342): "A Great Debate That Would 'Split' Israel"]

[Text] Not long ago I visited Israel again, and no matter wherever I went I could hear people debate about the Golan Heights issue. There is an old Israeli saying which goes like this: "When there are two Jews, there are three types of points of view." This means that Jews are particularly active in their thinking, their opinions vary when they discuss issues and it is hard for them to reach agreement. Through personally viewing debates about the Golan Heights on this visit, I obtained a deeper understanding of this saying.

For 45 years since Israel was founded, the country has been at war or on the verge of war. In recent years, with the collapse of the polarized system, the end of the "Cold War," and the start of the Middle East peace talks, people generally hoped that peace could be realized at an early date. After taking office last year the Labor Party conformed to this expectation by adjusting policies on the Middle East peace talks, and adopted more flexible policies. What stands out is the declaration of the principle of substituting "land for peace." This applies to the Golan Heights. The government also expressed its willingness, on the basis of reaching an "all-round agreement" with Syria, to hand over to the Syrian side the sovereignty of the Golan Heights. What is meant by "all-round agreement" is mainly the inclusion of three parts: Syria and Israel will sign a peace accord (similar to the peace accord between Egypt and Israel), all-round opening up of the Syrian-Israeli border, and the normalization of relations between the two countries (establishment of official diplomatic relations and embassies). At present, Syria demands that Israel withdraw its forces before "all-round agreement" talks can be started. Israel, however, insists that an "all-round agreement" be signed before it considers withdrawing its forces. As for how the Golan Heights will be administered after sovereignty is given back to Syria, Israel has put forward many types of ideas by official or unofficial means: Israel would buy or lease parts of the Golan Heights, the UN peace-keeping force would be stationed in the Golan Heights, U.S. forces would administer the Golan Heights, the Golan Heights would be de-militarized under international guarantees, and so forth.

The Labor Party government's new policy concerning the Golan Heights issue was welcomed and supported by some people, but also encountered quite strong opposition. Mainly the opposition included the following four types of people: the hard-liners in the Likud regime, traditional right-wingers, residents in the Golan Heights, and their representatives in the government and congress, residents of Galilee near the Golan Heights and the

political regimes that represent their interests. According to the latest polls, about 50 percent of the Israelis support the policy to the Golan Heights, and 50 percent of the Israelis oppose this policy. At present, the debate over the Golan Heights issue has become a nation-wide debate so that a professor said to me: "The Golan Heights issue has 'split' Israel."

On the evening of 3 June, I attended a gathering in Bar-Ilan University where Prime Minister Rabin delivered an address on the issue of the Middle East peace talks. It was when he was vehemently talking about his viewpoints such as "peace is important," spasms of shouting arrived. I listened carefully and realized that those who were against his policy were shouting, "We will never withdraw from the Golan!" and "Out with Rabin!" However, Prime Minister Rabin knew rather well how to exercise self-control. He appeared to be calm and at ease, and went on with his talk as if he did not hear such loud shouting. I asked a professor beside me and he said that events like this occur often in Israel, and recently there were people reprimanding Rabin even every day for the Golan Heights, but the Prime Minister did not care any more as he had already heard a great deal. It was also in those days that some people from Golan Heights who were going to be settled down there and some right-wing organizations held a 10-day demonstration in front of the congress, protesting the government's policy to the Golan Heights. I passed by there and saw that the protestors were divided into several batches and they shouted slogans in turns. It is said that such "tactic of several persons taking turns in fighting one opponent to tire him out" did not stop from the morning to the evening. More than one hundred policemen were watching nearby. Some people who supported the government policy argued with demonstrators. The argument was so intense that very often both sides would turn red. They, however, were able to maintain "gentlemen only use their mouths instead of hands." What was more interesting was an occasion when I was a guest in one of my friends' home. My friend (a professor) persisted in supporting the peace talks policy of the Labor Party government. But his wife was opposed to any kind of compromise in the Golan Heights issue. As a result, they started to debate at the dinner table. The professor was certain that I would support him as a Chinese, and asked me to talk about my points of view. But I absolutely did not want to turn my friend's dinner table into a forum, I could do nothing but made it clear that I "gave up my right" on this issue.

Now, people who are opposed to making concessions on the Golan Heights issue and those who support the flexible policies of government are expressing their opinions one after another in newspapers, on radio and television. Both sides stick to their own versions or arguments, and each sticks to its own stand. The opponents said: "Golan Heights is not the Sinai Peninsula, the latter has historically had no great batches of Jewish residents, but the former has historically been a residing place of the Jews; the latter and the

heartland of Israel are separated by the vast Negev Desert, but the former is located high, overlooking the entire northern Israel and approaching our heartland. If Golan is lost, the security of Israel will no longer be guaranteed." The supporters refuted, "Modern wars are vertical wars. Under this type of conditions, no matter how important the strategic position a piece of height is, its role is limited. It is irresponsible to say that their country would be destroyed if withdrawal from the Golan occurs." The opponents believed that the Syrian Government is a "dictatorship exercised by unstable military people," and if we hand over the Golan Heights on a silver platter to such a power, we shall pay a "blood price" when changes take place in Syria's political situation. Taking Egypt as an example, the supporters pointed out, "Though assassinated was President Sadat who signed the Camp David Accord, Egypt's friendly policy toward Israel has been maintained over the past 10 years, not changed at all. Why was Syria unable to do what Egypt did?" Prime Minister Rabin called again and again on his fellow countrymen to transform their concepts, to learn to negotiate with their own enemies, make concessions when necessary, and declared: If Middle East peace cannot be achieved, Israel will never enjoy true security. Nevertheless, the opponents would never take words like these. Some of them had laughable points of view,

"Why would we use the 3,000 buildings in the Golan Heights in exchange for a building for the embassy in the Damascus?"

I got in touch with some people who were opposed to the government's policy on the Golan Heights. I should say by my conscience that they did not hope there would be no peace. They believed that making concessions over the Golan Heights issue would not lead to peace, but would lead Israel to sustain swamping. More than a half century of conflicts and killings in revenge caused many Jews to embrace a deep-rooted sense of distrust in Arabs, or a kind of prejudice or bias. This is the biggest psychological obstacle that has impeded the progress of the Middle East peace talks and the reconciliation between Arabs and Israelis.

Once I asked Foreign Minister Simon Peres, "If you could make a compromise with the Arab side, would there be any opposition obstructing this process?" He answered with curt finality, "If we could reach agreement with Arab countries, nobody can prevent us from signing a peace accord." In a sense, while negotiating with the Arabs, domestic opposition could strengthen Israel's negotiating status. However, time is especially important for the Labor Party government. Now, one year has passed and if the Middle East peace talks still have not achieved progress in a couple of years, it would be hard to say whether the Labor Party government could still maintain its status at ease.

Political, Other Roles of Literature, Art Viewed

93CM0429A Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese No 7,
11 Jul 93 pp 19-23

[Article by Yan Zhaozhu: "The Relationship Between Literature and Art in Socialism With Chinese Characteristics and Politics"]

[Text] Raising and discussing the issue of the relationship between literature and art and politics is described by some commentators as constituting extreme left activities. For instance, some authors in the book *Memorandum on Preventing Problems of Leftism* criticize: "In the past couple of years some theorists from the left village in literary and art circles have been once again making a great fuss over the issue of relationship between literature and art and politics," and this "reflects the highly politicized mentality on the part of those from the left village."¹ Some commentators have engaged in such propaganda for many years, and the purpose is to make people in literary and art circles psychologically conditioned to avoid, detest, and reject real-life politics. In fact, under the influence of such views, the issue of relationship between literature and art and politics has become a new forbidden theoretical zone of which many comrades are terrified by the sight; correct Marxist views are denounced as views of the extreme left, while erroneous views become self-styled anti-left views and are running amuck. All this has created a great deal of ideological confusion. Nevertheless, every upright, objective, and truth-seeking scholar is justified in asking: If a thorough materialist has nothing to fear, why is it that the relationship between literature and art and politics may not be studied or discussed? Every socialist literary and art worker is also justified in asking: If we have devoted all our hard work to the socialist cause, why may we not be concerned about socialist politics with Chinese characteristics, or use the Marxist stand, views, and methods for understanding the relationship between literature and art and politics?

Our party adjusted its general policy on literature and art at the start of the new period. A RENMIN RIBAO editorial on 26 July 1980 transmitted the general slogan put forward by the CPC Central Committee—that "literature and art should serve the people and socialism." At the same time, the editorial also pointed out: "As an academic issue, people may freely discuss the issue of how to scientifically interpret the relationship between literature and art and politics. But as a policy matter, the party demands that literature and art be not divorced from politics and keep to the correct political orientation." Obviously, the demand regarding the "serving two things" orientation in no way meant that the relationship between literature and art and politics had ended, or that theoretical exploration of the relationship between literature and art and politics should be ended. Furthermore, demanding that literature and art be not divorced from politics and keep to the correct political orientation provides an indispensable important policy guarantee of

having the "serving two things" orientation followed. Therefore, it is totally wrong for some commentators to denounce any discussion of the relationship between literature and art and politics as extreme left activities. In fact, since the mid-1980's, views advocating keeping politics at a distance and getting divorced from politics have been expressed continually in the literary and art community; some works of literature and art and some commentaries have to varying degrees committed fundamental political-orientation mistakes. All this has been hampering the effort to have the "serving two things" orientation followed and hindering the flourishing of socialist literature and art. Such facts prove that the relationship between literature and art on the one hand and politics on the other exists objectively and can neither be denied nor evaded. The only correct approach that we should adopt is one of trying to understand the relationship between literature and art on the one hand and politics on the other on the basis of seeking truth from facts and of conscientiously keeping to the correct political orientation, under the precondition of keeping to the "serving two things" orientation and on the basis of summing up historical experience.

But according to some commentators, it is totally impossible to discuss the relationship between literature and art and politics on the premise of keeping to the "serving two things" orientation; it seems as if affirming any relationship between literature and art and politics would be tantamount to negating the "serving two things" orientation, and inevitably lead to committing mistakes again. Is that really the case? No. That RENMIN RIBAO editorial discussed above clearly pointed out: "The slogan of serving the people and socialism summarizes literary and art work's general task and fundamental goal; it encompasses serving politics, but is more comprehensive and scientific than just making an isolated demand that literature and art serve politics." The reasons here are obvious and easy to understand: Since our literature and art should serve the people and socialism, they should of course serve socialist politics. We have no reason to put them in absolute opposition to each other. What really needs to be made clear is the relationship between them. As should be pointed out, the former concerns the relationship between literature and art and the overall cause of socialism, makes clear literary and art work's general task and fundamental goal, and therefore it is our general slogan and policy regarding our literary and art work; the latter concerns the relationship between literature and art and politics and makes clear an important responsibility and task that our literary and art work has to assume, and therefore it is not our general slogan and policy regarding our literary and art work. The relationship between them is the relationship between a part and the whole and between the partial situation and the overall situation, but not a relationship of mutual exclusion and rejection. We should neither exaggerate nor understate or deny the significance and role of the practice of having literature and art serve politics. If it is said that we improperly exaggerated such a role and

made serving politics our literary and art work's only task and ultimate goal, and that such a practice was wrong and should have been corrected, then, is it not also wrong now for some commentators to deny the existence of such a role and to entirely abandon this important task of serving socialist politics that literature and art should assume? Should such a mistake not also be corrected? If one truly espouses the "serving two things" orientation, then he should not deny the need to serve politics, as "serving two things" encompasses serving politics.

Therefore, we should unambiguously argue that in terms of relationship between literature and art and politics, certain literature and art would submit to and serve certain politics. From a class perspective, in class society certain literature and art would submit to and serve the politics of a certain class. As the classes involved are different, the nature and characteristics of the politics would also be different. Consequently, in studying and trying to understand the relationship between literature and art of socialism with Chinese characteristics and politics, we must give full attention to the nature and characteristics of such politics. In "Talks," Comrade Mao Zedong emphasizes: "When we say that literature and art submit to politics, the politics discussed here refers to class politics and the masses' politics, but not the politics of a few so-called politicians.... Revolutionary ideological struggle and art struggle must submit to political struggle, for the needs of the classes and the masses can be fully expressed only through politics." Comrade Deng Xiaoping also once said: "The Marxist ideological and theoretical work cannot be divorced from real-life politics. The politics that I discuss here refers to the overall situation regarding domestic and international class struggle and concerns the fundamental interests of the people of China and the world in relation to their actual struggle."² The politics discussed here reflects the essential characteristics of proletarian politics, and is fundamentally different from the politics and political perspective of the feudal class and the bourgeoisie. Thus, in the final analysis, by submitting to and serving socialist politics, our literature and art are submitting to and serving the fundamental interests of the masses of the people. This makes clear in a fundamental way that as far as literature and art are concerned, serving socialist politics is the same as serving the people and socialism. Surely, the interests of the masses of the people are multifaceted; in addition to political interests, they also have economic and other interests. The socialist cause is also multifaceted; in addition to the political front, there are also the economic front and other fronts. All of them are targets and contents of the service that literature and art provide for the people and socialism. Therefore, we do not advocate reducing the idea that "literature and art should serve the people and socialism" to the idea that literature and art should serve politics. But we should reduce the idea that literature and art should serve politics to the idea that "literature and art should serve the people and socialism," for the latter is exactly the purpose and

ultimate goal of having literature and art serve politics. What is puzzling is that some commentators who reject and oppose the practice of having literature and art serve socialist politics paint politics in disgusting colors without basing their action on any analysis and describe all politics as activities in which a small number of people are engaged to vie for power and to attack and harm other people. They even publicly slander the comrades who discuss the relationship between socialist literature and art and politics, saying that those comrades "make attacking people their guiding policy" and "greedily covet power and position."³ What does all this show? It only shows that they do not understand at all how proletarian politics and socialist politics function, and that they only believe in the conspiratorial politics of a few bourgeois politicians. In fact, a few among them have always been enthusiastic about that kind of politics, and persist in engaging in the politics of bourgeois liberalization; they just tend to deny that they are engaged in politics. This is so not only because that politics of theirs is truly unrepresentable, but also because they want to ruin the reputation of socialist politics, cause the masses' to detest socialist politics, and damage the political strength of socialism, thereby eliminating the obstacles to their effort to promote bourgeois liberalization. Such conduct truly constitutes "greedily coveting power and position"!

Then, what is the basic content of the socialist politics discussed, if we say that literature and art should submit to and serve socialist politics under the precondition of "serving two things?" Comrade Deng Xiaoping says: "Socialist modernization construction is our most important politics now, because it represents the greatest and most fundamental interests of the people."⁴ In his report delivered at the 14th CPC Congress, Comrade Jiang Zemin further pointed out: "With regard to political guarantees for socialist construction, give emphasis to keeping to the socialist road, to upholding the people's democratic dictatorship, to upholding the leadership of the Communist Party of China, and to adhering to Marxism-Leninism and Mao Zedong Thought. These four cardinal principles are the pillar of the state and a guarantee of the healthy development of the reform and opening up project and modernization construction; and they get enriched with new era-based elements relating to the reform and opening up and modernization construction." This statement is a highly condensed summary of the basic content of socialist politics with Chinese characteristics. It is through such socialist politics that the needs of the proletariat and the masses of the people can be expressed in a concentrated manner. Undoubtedly, our literature and art should of course submit to and serve such socialist politics; and such submitting and serving are a very important mission which is part of the "serving two things" general task, and play the important role of determining the political orientation in relation to the "serving two things" orientation. On the other hand, denying the existence of any relationship between literature and art and politics and fundamentally opposing the practice of having literature and art

serve socialist politics would inevitably cause our literature and art to lose their correct political orientation; and as a result, it would not be possible to truly implement the "serving two things" general policy.

Of course, today, when discussing the relationship between literature and art and politics on the premises of "serving two things" and of affirming that literature and art should submit to and serve socialist politics, we must scientifically sum up historical experience and should never repeat past mistakes. Therefore, it is necessary to emphasize: first, having literature and art serve politics is only one important component of literary and art work, and it is only the proposition that "literature and art should serve the people and socialism" that represents our literary and art work's general task as well as the general policy regarding literary and art work; and that proposition also encompasses the important idea of serving politics. Second, the relationship between literature and art and politics should not be understood in a simplistic way. Our literature and art should submit to and serve socialist politics, but at the same time socialist politics also plays a role in promoting the flourishing of literature and art, a role that should not be underestimated. Thus, it is metaphysical to argue that socialist politics is a shackle confining the development of literature and art. Third, the relationship between literature and art and politics should not be understood in absolute terms. Literature and art not only are affected by, as well as affect, politics, but also are affected by, as well as affect, economics and all social life including various aspects of spiritual life. Therefore, not all issues of right and wrong in literature and art should be understood to be political issues or be handled as if they were political issues; it should not be demanded that all works of literature and art only depict a certain political struggle or only serve a certain political struggle. Fourth, the relationship between literature and art on the one hand and politics on the other should not be vulgarized. Literature and art should submit to and serve politics; the politics discussed here means class politics and the masses' politics, and mainly refers to the party's basic political line for a certain historical period which reflects the fundamental interests of the masses of the people and which has bearing on the overall situation regarding the revolutionary cause. Consequently, it is not demanded that literature and art submit to any temporary, partial, or immediate political task, or that writers and artists unconditionally serve a certain specific political task, slogan or policy; it is not permissible to improperly interfere in literary and artistic creation for those purposes, thereby hampering literature's and art's playing of their social role in an active and full manner in accordance with the laws of art. If only we can effectively learn such lessons from history, we will be able to scientifically understand the real relationship between literature and art and politics, keep to the correct political orientation, and implement the "serving two things" policy, thereby promoting socialist literature and art so that they can get ever more flourishing.

As historical facts tell us, a serious challenge that we face in regard to issues of literary and art theories lies in the fact that since the party put forward the "serving two things" policy, especially since the mid-1980's, some commentators have been denying the objective existence of any relationship between literature and art and politics in an attempt to make our literature and art divorced from socialist politics with Chinese characteristics. Now this theoretical debate is not over yet. A main focus of the debate concerns the issue of whether literature and art should fully play their educational role. Some people suggest that our literature and art should weaken their educational role and take the road of pure entertainment, as if our literature and art would have accomplished their historical mission as long as they can provide people with entertainment and diversion. Such ideas are completely wrong. First, it should be realized that the demand for giving emphasis to ideological and political education is a historical demand generated by the project of building socialism with Chinese characteristics. Comrade Deng Xiaoping points out: "In working for the four modernizations, it is necessary to take care of the two tasks, and taking care of only one task will not work.... In regard to the task of economic construction, we are fairly successful, and the situation is gratifying; this is our country's success. However, if social conduct further deteriorates, what meaning can economic success have? There will be degeneration in the other aspect; this will in turn cause the entire economy to degenerate; if things should go on in this way for some time, there would be activities of embezzlement, stealing, and bribery everywhere in society."⁵ He also points out: "The pursuit of the policy of opening to the outside world will bring some bad things which will influence our people. In terms of risk, this is the biggest risk. Therefore, we will use both law and education as means of resolving this issue."⁶ He also emphasizes: "The biggest error committed in the past decade was the one concerning education. I am here mainly talking about ideological and political education, referring to educating not just students and youths but also the people in general."⁷ Here, Comrade Deng Xiaoping has made very clear what serious consequences a failure to give great emphasis to ideological and political education will have. The work of ideological and political education can be carried out in many forms, and literature and art are a special, lively, and effective form in this regard. As our literature and art are supposed to serve socialist politics with Chinese characteristics and as our literature and art are supposed to serve the people and socialism, our literature and art should naturally be asked to fully play their educational role and to educate the masses in patriotism, collectivism, and socialism. Surely, this does not mean that literature and art should be turned into abstract preaching. Turning literature and art into preaching would result in literature and art losing their own characters; in such a case, it would no longer be possible to give full play to literature's and art's educational role. The unique characters of literature and art are also their strengths which lie in the fact that they convey ideas through depicting emotions and educate

people through providing entertainment, so that people would be willingly accept education while concentrating on aesthetic pleasure. In this way it becomes possible to change people's mental outlook without the change being realized and to cultivate people's mental toughness and moral integrity through exerting subtle influence, thereby helping people acquiring correct ideals, beliefs, and value conceptions. The socialist writers and artists with a high sense of historical responsibility should conscientiously endeavour to give full play to literature's and art's role in uniting and educating the masses in their artistic practice in accordance with the laws of art, thereby contributing to the enhancement of the work of ideological and political education. In fact, the view advocating the weakening of literature's and art's educational role and the taking of the road of pure entertainment not only is politically wrong, but also violates the laws of art. For, there does not exist such a thing as pure-entertainment literature and art in the world. Educating people through providing entertainment is a general law of literature and art. That is, while entertaining people, literature and art would always play a role of

some kind in providing ideological and political education. For instance, those works of literature and art which exclusively depict the pursuit of sensual pleasures and which play up bad-taste stories would be corroding people's soul with decadent bourgeois life styles in a subtle manner. How can such works be said to be works of pure-entertainment literature and art? Therefore, in fact, demanding that our literature and art weaken their educational role can only result in weakening the correct ideological and political education that we need and in opening a convenient door for the unrestricted flooding of those things which corrode people's soul. Such results will inevitably have disruptive and damaging effects on socialist politics with Chinese characteristics, and endanger the foundation of the cause of socialism with Chinese characteristics. It would be best that people stop advocating such ideas.

Footnotes

1., 3.: Fang "Zuo" Beiwanglu, p. 164.

2., 4., 5., 6., 7.: *Selected Statements by Deng Xiaoping on Building Socialism With Chinese Characteristics*, pp. 16, 52, 138-139, 139, 34.

NATIONAL AFFAIRS, POLICY

National Survey on State Enterprise Burdens

93CE0848A Beijing JINGJI CANKAO BAO in Chinese
17 Aug 93 p 4

[Article by Zuo Taihang (1563 1132 5887) and Fu Shan (0265 1472), Policy Laws and Regulations Department, State Administration of Foreign Economic Relations and Trade: "Heavy State-Owned Enterprise Burdens—Summary Findings of a Nationwide Sample Survey"]

[Text] During the second quarter of 1993, we surveyed 206 large and medium size enterprises in 22 different trades located in 26 provinces and municipalities. Indicators such as their output value, profits and taxes, product sales rates, and economic returns indices suggest a generally fair situation. All are higher than the national average. However, a prominent problem reported was the continued excessive enterprise burdens, which limit enterprises' ability to compete equally in urban markets. These burdens showed up in the following ways:

1. Heavy liabilities. The indebtedness of the enterprises surveyed totaled 51.918 billion yuan, the net worth to debt ratio reaching 180 percent. Thirty percent of total indebtedness was for capital construction and technical transformation, 40 percent was for operating capital, and 30 percent was for other purposes. Enterprises themselves supplied only 15.5 percent of their working capital; thus, they carried very heavy annual principal and interest repayment burdens. Debt repayments in 1992 totaled 4.8 billion yuan, which was 38.6 percent of the enterprises' profits and taxes. This is a serious situation because the rate of return on enterprise funds is far lower than bank interest rates. This kind of operating in the red is part of a vicious cycle in which indebtedness snowballs making it very difficult for enterprises to get back on their feet.

2. Heavy social burdens. Enterprises' heavy social burdens are in the form of social responsibilities. Enterprises' taking care of everything from child care to old people's homes makes their non-business expenses rise in a straight line. The ratio of current employees to retirees in the enterprises surveyed was 6.6 to 1. However, the ratio in old industrialized provinces and cities is higher. In Shanghai it is 2.81 to 1; in Beijing, it is 2.95 to 1; and in Tianjin, it is 3.22 to 1. This shows the contribution state-owned enterprises make to society, and shows even more that the social burdens of state-owned enterprises are becoming heavier and heavier, making it difficult for them to compete as equals with enterprises under other forms of ownership.

3. Heavy state-owned enterprise tax burdens. Statistics show the net retained profits of state-owned industrial enterprises under budget in 1991 amounted to only 8.3 percent of net income (realized profits and taxes), this percentage increasing to 12.9 percent in 1992. The 1.232 billion yuan in retained profits of the 206 large and medium size state-owned enterprises in this survey

amounted to only 9.87 percent of profits and taxes realized, a percentage lower than the average for the country as a whole. This shows that state profits, taxes, and fees obtained from large and medium size enterprises are higher than from other enterprises. The 8.252 billion yuan in profits and taxes that the surveyed enterprises paid the state in 1992 amounted to 66 percent of their profits and taxes. Another 24.13 percent of profits and taxes went mostly for payments into the "two funds," and for other payments and the repayment of debts. It is particularly noteworthy that tax payments of 6.711 billion accounted for 81.33 percent of the total profits and tax payments. Turnover taxes, including product taxes and added value taxes, accounted for a substantial percentage leaving enterprises without much profit. Many enterprises (not counting money losing enterprises) really have no profits to turn over to the state. This situation will have a major effect on the formulation and implementation of future tax and profit sharing plans. Even if the income tax rate is lowered, since an overwhelming majority of the profits and taxes that state-owned enterprises realize are paid to the state in the form of turnover taxes, very little or virtually no profit will remain, never mind the "sharing of profits and taxes." This will become another instance of "killing the goose that lays the golden egg."

A fundamental solution to the state's fiscal difficulties requires genuine invigoration of large and medium size state-owned enterprises. Genuine invigoration of large and medium size state-owned enterprises requires a policy of "caring for the goose that lays the golden eggs"; lightening the heavy burdens of state-owned enterprises. First are fair tax burdens, reforming the product tax and the added value tax and according enterprises benefits equal to those that the three kinds of partially or wholly foreign-owned enterprises enjoy. Second is lowering of income tax rates and reduction or exemption from payments into the "two funds." At the same time, a large increase in enterprises depreciation rates in accordance with international practice will accelerate depreciation. Enterprises should be allowed to make their own decisions about the withholding of technical development expenses. In this way, only when enterprises have money of their own can they exercise decision making authority. This would enable state-owned enterprises to become major players on the market.

Conference Held on Transforming Enterprises

93CE0848B Beijing JINGJI CANKAO BAO in Chinese
12 Aug 93 p 1

[Article by correspondent Ding Genxi (0002 2704 0823) and trainee Jin Hui (6855 2547): "Unswerving Implementation of 'The Regulations': Further Efforts Needed To Put 'The Regulations' Into Effect—Roundup Report on the Work Conference on National Transformation of Enterprise Operating Mechanism"]

[Text] On the occasion of the first anniversary of the promulgation of the "Regulations on the Transformation of the Operating Mechanisms of Industrial Enterprises Under Ownership of the Whole People," a work conference on the nationwide transformation of enterprises' operation mechanisms was solemnly held in Beijing.

The delegates unanimously agreed that in the year since promulgation of "The Regulations," new advances have been made in the task of implementing "The Regulations," with some places scoring remarkable results. First, the 14 operating rights that "The Regulations" confer on enterprises have been phased in and enterprises' status as market players thereby increased. Second, a quickening of the pace of change in government functions has improved the social climate for the transformation of enterprises' operating mechanisms. Third, new advances have been made in the restructuring of enterprise organization, the survival-of-the-fittest mechanism playing a further role. Fourth, marked advances have been made in reform of enterprises' three systems, internal operating mechanisms becoming further transformed, and enterprises' economic returns rising.

Delegates to the conference pointed out that with the steady implementation of "The Regulations," some deeply buried problems have also gradually appeared that urgently require diligent study for solution.

First, the transformation of government agency functions is lagging and enterprises are continuing to encounter great difficulties in implementing their operating rights as a result. Some jurisdictions and departments lack a sense of urgency about improving enterprises, or they are filled with misgivings and remain undecided. Consequently, numerous regulations that have been issued have become dead letters. In some cases, they receive nothing but lip service, the appearance is given that they are being carried out when actually they are not, or a few are implemented but most are not. A distortion in the transformation of government department functions has appeared recently. Some government agencies have set up "nominal" corporations or "shotgun marriage" groups in which government administration and enterprise management are not separate; these entities take away the legal rights of enterprises, or even abolish the legal status of enterprises. They act both as a "boss" and a "mother-in-law." The corporations belonging to some government agencies abuse their authority to do business, buying and selling exclusively. Enterprises say that they fear first the government corporations that can use money to put them at a disadvantage, second those who can cut off their raw materials, and third those who can cut off electricity to their plants; but most of all, they fear the relatives of people in high places. The 14 operating rights have not been fully implemented, and the one that poses the greatest difficulty in implementation is government's

giving up the right to make assessments. Many government agencies and units extend their reach to enterprises, some of them concocting various pretexts to make hidden assessments. Some of them intimidate the enterprises, saying that the enterprises are voluntarily accepting their assistance.

Second, many enterprises lack a competitive sense. They fail to look inward and work hard to improve themselves. Most state-owned enterprises, particularly large and medium size state-owned enterprises, carry heavy burdens but lack the conditions to compete as equals. One conspicuous problem is that some enterprises still do not conscientiously abide by "The Regulations." They suppose that "The Regulations" cannot solve their real problems. Instead, they keep looking to higher authority, unrealistically emphasizing the delegation of authority and the granting of concessions while refusing to curb and supervise their own behavior. Or they look at the 14 rights in terms of old ideas, old methods, and the old system, supposing that now that they have these rights, and that the enterprise operating mechanism will become transformed automatically. At the same time, for historical reasons including their inherited system, state-owned large and medium size enterprises have serious problems in the form of hidden losses and charging losses to account. Their indebtedness, tax burdens, heavy social responsibilities, and large numbers of superfluous personnel put them at a competitive disadvantage.

Third is slowness in moving ahead with accompanying measures that should keep up with reform. Enterprise reform cannot move ahead in isolation. It must advance step by step as part of an overall plan. One prominent problem today is the slow inauguration of accompanying regulations. Accompanying regulations of some collective agencies never come out despite repeated calls. Consequently quite a few of the local accompanying measures cannot be put into effect.

Finally, there is lack of strictness in law enforcement, investigation, and supervision, and violations of the law are not vigorously handled. Some comrades have yet to realize that "The Regulations" are the law," or they refuse to enforce them, adopt a wait-and-see attitude, or drag their feet. Some laws, regulations, and policies that conflict with "The Regulations" continue to be enforced, in addition to which enforcement of "The Regulations" is not vigorously supervised. Consequently, the legal solemnity of "The Regulations" is greatly denigrated, the effectiveness of the law failing to be expressed.

Delegates to the conference believe that implementation of "The Regulations" has reached the stage where an all-out attack must be made. Not to go forward is to go backward. Thus, the conference called upon all jurisdictions and all departments to pay close attention to the following tasks:

Improve legal system concepts to heighten understanding of the important position of "The Regulations." "The Regulations" are the keystone to the building of a socialist market economy." Leaders at all levels should highlight key points, making implementation of "The Regulations" a central task to be given attention.

Adhere to the "three benefits" standard for earliest possible transformation of government functions. The operating rights that "The Regulations" confer on enterprises are to be implemented one by one and in full accordance with the law. At the same time, attention must be paid to the maintenance of relative continuity in factory manager corps. Factory managers should not be lightly removed or changed, nor should their juridical status be cancelled. Even things that need to be done must be done prudently and carefully so as to not stifle the zeal for implementing "The Regulations" of enterprises and the rank and file of staff members and workers.

Guide enterprises toward introspection and working hard on improving themselves, make efforts to bring about the transformation of operating mechanisms. The main ingredients in the transformation of enterprises operating mechanisms are as follows: First is transforming administrative concepts, making people understand that independent decision making and standing on one's own two feet are necessary in market competition, and reforming enterprises administrative systems. Second is reforming the decision making system, the leadership system, the self-limitation and supervision system, and such organizational system frameworks of enterprises after the separation of government administration and enterprise management. Third is changing the financial, labor, and personnel management systems, and operating regulations. Fourth is improving basic enterprise administration. Every enterprise must study the goals and substance of the transformation of the operating mechanism in their own enterprise, and organize implementation step by step.

Continue to actively promote reform of enterprises' three systems. The situation in which cadres may be promoted but not demoted, staff members and workers may be hired but not fired, and wages can rise but not fall must be changed to enable the removal of large numbers of superfluous personnel from positions in order to stir the enthusiasm of the remaining staff members and workers. In view of the too rapid increase in outlays of a consumption nature, greater overall control of the total wage bill must be exercised. The reasons that enterprises are losing money must be analyzed and banks' payment of wages should be attempted in enterprises where conditions permit.

Make vigorous efforts to move ahead with readjustment of enterprises' organizational structure. Fairly large enterprises whose plants are spread over a wide area, whose product lines are independent, and whose economic returns have been low for a long time might enter

markets as independent legal entities, dividing up in order to survive. Large enterprises whose overall advantages have gradually decreased but who still have some advantages left might institute "one plant, two systems," or "one plant, multiple systems"; might be grafted into joint ventures, or be split up to make them vigorous. Enterprises that have been losing money for a long time, that have no prospects for reversing their losses, and who lack sufficient assets to offset their liabilities should close, halt production, merge, relocate, be contracted out, leased, sold, or demolished, with only the fittest surviving. Enterprises whose debt burdens are especially severe may be permitted to go bankrupt and then merge. For large and medium size state-owned enterprises that bear heavy burdens for historical reasons, different remedies may be applied to remove their burdens as circumstances warrant.

Perfect the capital management methods of state-owned enterprises. Strengthen supervision and control of state-owned assets and gradually straighten out equity relationships between the state as the owner and enterprises as operators. Actively study a modern enterprise system in which equity relationships are clear and responsibilities are spelled out.

Economic Growth Problems, Measures Analyzed

93CE0848C Beijing JINGJI CANKAO BAO in Chinese
16 Aug 93 p 4

[Article by "Macroeconomic Situation Analysis" Task Force, Financial Research Institute, People's Bank of China: "Current Macroeconomic Economic Growth and Choices of Remedies for Problems"]

[Text] In 1991, China's economy began a new round of growth. In 1992, the actual GNP growth rate since the beginning of reform and opening to the outside world was second only to that of 1984. How to view the current high speed economic growth is a key issue that has a bearing on the orientation of macroeconomic policy.

We divide economic growth into fluctuating growth and steady growth. Fluctuating growth is short-term growth. It stems largely from a number of economic or non-economic factors that make demand fluctuate for short periods. This causes changes in the degree to which resources are used that changes the capital output coefficient, thereby causing fluctuation in total output. Steady growth is the result of the role of various long-term factors. These long-term factors include technological innovation, the amount of capital available, the quality of capital, the capital structure, and the quantity and quality of labor. The more sophisticated the technology, the larger the amount of capital, and the more rational the capital structure, the faster the speed of steady growth, and the greater the economic development potential.

On the basis of an analysis of the character of current economic growth, as well as study of the record of past development, we believe that the current high speed

economic growth is a product of both steady growth and fluctuating growth, but that fluctuating growth is the dominant element. An exponential curve fitted to GNP growth since reform shows an average annual 8.9 percent growth speed. This speed corresponds to the stable growth speed of a certain kind of economic system.

Although the market element has developed further in recent years, as new economic phenomena such as direct financing occur, one should not suppose that a spectacular takeoff has been attained in reform of the economic system. Actually, many deep-seated problems in the economy remain to be solved. Enterprise operating mechanisms have not been transformed, and a decline in enterprises' returns remains very conspicuous. Structural imbalance has not changed fundamentally, and the trend is toward further deterioration. Therefore, the factors affecting long-term growth have not changed substantially. However, the speed of current economic growth is far higher than the average speed of growth since reform. This provides reason for supposing that, to a very large extent, current economic growth is fluctuating growth.

Overall current ultra high-speed growth is pulled by demand, investment demand in particular. Since the beginning of 1992, the predicted effect of the economic boom, plus macroeconomic policy factors known to all have greatly stimulated local governments' impulse to invest and enterprises' quantitative expansion. The scale of investment in fixed assets expanded quickly and remains high even now. The high growth of investment powerfully stimulated production in the capital goods field, and simultaneously pulled growth of consumption demand. Social final demand continued to widen, thereby increasing enterprises' equipment utilization rate and increasing the capital output coefficient. As a result, a fairly high growth of total output also occurred despite no change in the short-term availability of capital.

During the process of rapid inflation of the scale of investment, the excess money supply began to play a role in adding fuel to the fire. In 1992, new national bank credit reached 352.9 billion yuan in a 19.9 percent increase over the same period during the previous year. This included a 29 percent increase in credit for the purchase of fixed assets. Particularly arresting was the skewing of the behavior of banks at all levels under local government investment pressure and the lure of profits. It has been estimated that 20 percent of the 191.7 billion yuan of self-provided investment in fixed assets owned by the whole people was provided through bank borrowing and false consignment. Ignoring the central bank's three degrees and five appeals, the head offices of some specialized banks openly called for banks to do all kinds of banking business, perform multiple functions, and link production and finance. This led to banks everywhere taking a direct part in investment, which supported the building of fixed assets outside the plan, thereby causing overheating of the economy.

Although originating in development, a certain amount of total growth promoted the effective use of resources. This was necessary for the improvement of returns from production. However, as soon as total speed of growth far exceeds the speed attainable by stable growth, it can harm long-term economic growth. Analysis of events shows that overly high fluctuating growth invariably results in contraction and a slide in the economy because it cannot sustain balanced growth in the supply of key elements. Overly high fluctuating growth endangers the economy in several ways, the most direct result of which is that when the availability of resources limits production, compulsory substitution of resources is the usual result. This causes a rise in costs, a fall in product quality, and an intensification of turmoil and waste in the allocation of resources.

Structurally speaking, overly high fluctuating growth leads to a distortion of price signals, which creates dummy demand. This makes the irrational investment structure even worse. The irrational investment structure accentuates the defective industrial structure, and this has a detrimental effect on the speed of long-term stable economic growth. Yet another result of fluctuating growth is inflation. Because of the limitations of available resources, when structural problems are glaring, high economic growth is bound to cause inflation. In addition, overly high fluctuating growth also leads to financial instability. In the money supply realm, the high rate of return on money and the high rate of rise in prices causes people to change their savings and consumption behavior. Since February 1992, the savings accounts of city and country residents have gone through a stage of dramatic decline. Savings have taken on a short-term character causing a dramatic decline in the contingency funds of every bank. Thus, the central bank has had to raise interest rates to stimulate an increase in savings.

The foregoing analysis shows that restraining fluctuating growth and promoting stable growth should be the basic principle used in selecting remedies to growth problems. Simply restraining fluctuating growth can be realized through macroeconomic regulation and control policy measures. Comparatively speaking, difficulties are fairly small. However, promoting steady growth requires the intensification of reform and the transformation of enterprises' operating mechanisms in order to succeed. Organically combining current policy actions with the intensification of reform so that current policy actions would at least not likely become an obstacle to the intensification of reform would be much more difficult. Nevertheless this is an objective requirement that current economic development practice raises for the improvement of macroeconomic regulation and control, and for improving decision making. Therefore, we believe that we should not merely restrain fluctuating growth now, but should combine restraint of fluctuating growth with promotion of steady growth. Specifically, this means using a combination of policy measures, principally a tight money policy. Insofar as possible, we must blend it with the long-term measures of intensifying reform. We must give close attention to the fine

opportunity that changes in the economic situation provide for the intensification of enterprise reform, using the intensification of financial reform to promote the intensification of enterprise reform.

1. We must now persevere in policy measures, principally a tight money policy.

In tackling current inflation, we should not use overly severe tightening measures if we want to avoid a major economic slide. Since the economy cannot stand such a tremendous shock in the short space of a few years, this combination of policy measures should consist primarily of a tight money policy. We must avoid the use of across-the-board austerity policies.

Tight money policy may include the following several components: 1) A further rise in interest rates. Increasing the interest rate on savings accounts helps promote an increase in savings for an easing of consumption demand inflation. Simultaneous increase in loan interest rates can spur enterprises to increase efficiency in the use of funds. 2) The central bank can use various means to tighten money. It can issue financing debentures and liquidate lending to weaken financial institutions ability to expand credit, thereby attaining the goal of controlling the money supply. 3) At the proper time, consideration may be given to guaranteed value savings accounts for 1 year, while simultaneously changing the way that the guaranteed value subsidization rate is figured. Single year savings deposits currently account for a very large percentage of all savings accounts. Operating a single year guaranteed value savings system would help stable savings, eradicate people's expectations about inflation, and attain the goal of curing inflation.

2. Current opportunities must be seized to intensify enterprise reform.

After a time, the short-term policy actions taken to restrain short-term fluctuating growth and to cure inflation may cause a certain amount of slipping of the economy. This is also the price that must be paid to promote long-term economic growth. However, sole reliance on these short-term treatment measures without solving more deeply rooted economic problems cannot eliminate frequent fluctuations in the economy, although they may ultimately attain the goals of basic overall stability and curing inflation. Therefore, only by combining short-term measures for restraining fluctuating growth with measures for the intensification of reform and increasing the amount of reform can resources be better used to create conditions for advancing long-term steady economic growth, thereby obtaining results from reform that are commensurate with the price paid for curing inflation.

It must be realized that the current operation of the macroeconomy once again presents a fine opportunity for intensifying enterprise reform. This is because once a series of tight money policies have been instituted, the economy will enter a new period of contraction. During this period of contraction, the problems with overall

balance will ease somewhat, bottleneck limitations will weaken, and the shortage of funds will improve. Since demand will be brought under control, fully exposing problems with too great an "overextension," this will be favorable for a readjustment of the investment structure and the industrial structure. Because of their inability to obtain greatly needed support, poorly managed enterprises' problems with declining returns will magnify. Therefore, we should seize the opportunity to score spectacular progress in enterprise reform during the near term. We should, for example, speed up promotion of an enterprise bankruptcy system that permits the fit to survive and the unfit to perish, that rationally reorganizes resources, and that improves efficiency in the allocation of resources throughout society. We must use every available means to impel state-owned enterprises toward the market, and set up mechanisms for restricting enterprise investment so that they become operating entities responsible for their own profits and losses, and that themselves take risks.

Taking present opportunities to regard the intensification of enterprise reform as the main focus also requires associated reforms in other regards. Financial reform is an important one of them. Inasmuch as the conditions and the timing for a separation of financing for policy reasons and financing for commercial reasons is basically ripe, while rectifying the financial order, we should actively promote the separation of financing for policy reasons and for commercial reasons, fashioning as quickly as possible two independent financial operating systems that operate on two different principles. Simultaneous with the two separate financial systems, we should act quickly to promote a changeover from state-owned banks to commercial banks. We should use the gradual development and perfection of financial markets as a basis for improving macroeconomic regulation and control, changing it to macroeconomic regulation and control that uses mostly indirect regulation and control methods. This is also a requirement for lessening the shock of economic fluctuations.

CASS Research Group on Setting Market Policies

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[Article by the Research Group of the Economics Section of the Chinese Academy of Social Sciences, edited by Wang Bin: "Policies and Thinking on Establishing the System of Socialist Market Economy"]

[Text] The 14th CPC Congress advocated the establishment of a system of "socialist market economy," thereby providing a more scientific, clearer, and higher goal for the next stage of reform. This requires that we not confine structural reform to price reform and establishing a commodity market, but achieve greater breakthroughs in adjusting property right relationships,

reforming enterprises' internal systems, exercising macroeconomic management, and transforming government's function. At the same time, in the area of perfecting the market system, it is necessary to extend the reform to a deeper level, that is, the level of markets for factors of production. Only in this way would it be possible to design a basic framework for socialist market economy, a framework which is rather scientific and appropriate to the actual situation in China.

I. "Active Gradual Reform" Strategy and the Systematic Nature of Reform

A. China's reform has followed a "gradual" approach throughout the decade and more. As proven in practice, gradual reform is a successful approach which is appropriate to the actual situation in China and supported by the broad masses and which has produced important achievements; the approach is created by our party and our people. Using the gradual approach to reform does not mean that one may hesitate and fail to make progress. The double-track system has many obvious defects. Therefore, it is necessary to seize favorable opportunities to actively proceed with reform and gradually turn the transitional double-track operating practices into single-track practices, and it is necessary to make effort to shorten the transition period. This represents a line of thought advocating "active gradual reform." Now we should seize the good opportunity, and take the initiative in actively adopting some effective measures to deepen the reform under the precondition of having a clear reform goal. Especially relevant in this respect are some reform measures which concern the overall situation and which have to be implemented only under the unified leadership of the central government. It is necessary to exploit the masses' enthusiasm for reform and eliminate the obstacles erected by some vested-interest groups, so as make the reform and opening up climb another step as soon as possible.

B. Using the gradual approach to reform and emphasizing the systematic nature of reform do not mean one-sidedly seeking absolute coordination. Sometimes, in order to accelerate reform, it is even necessary to achieve breakthroughs in one area, instead of "instituting all the measures together" after all the designs have been completed. Nevertheless, we should try as much as possible to prevent the occurrence of "system bottlenecks" caused by the "lagging behind" of reform in some areas, bottlenecks which can affect the overall progress of reform. Our research report is focused on theoretical thinking, while also detailing the minimum reform package to be introduced during the Eighth Five-Year Plan period.

C. "Active gradual reform" requires the correct handling of the relationships between economic development and reform as well as the prevention of excessively high inflation which will adversely affect the progress of reform. An excessively high economic growth rate and the resultant high inflation will disrupt the normal functioning of the economy and make it impossible to

introduce reform measures. This issue should arouse sufficient attention on our part. The view that China's inflation rate may be kept at around 20 percent is not acceptable. Regulation and control goals should be to make sure that the average economic growth rate does not exceed 10 percent, and that the inflation rate is single-digit.

In the reform process, it is necessary to maintain a situation where aggregate social supply and demand are in basic equilibrium, to form a limited buyer's market in the model-transformation process, and to seek a rather relaxed economic environment conducive to reform. To that end, it is necessary to do the following: 1) Maintain economic growth at an appropriate rate. 2) Proceed with the transformation of the development model in an appropriate way, changing development strategic goals from being mainly those of quantity and speed types to being mainly those of quality and efficiency types. 3) Handle well the relationships between controlling demand and expanding supply, so as not to overly affect supply when controlling demand and not to overly stimulate demand when expanding supply. 4) The securing of equilibrium regarding aggregates should not mainly depend on administrative intervention, but on the implementation of appropriate monetary and fiscal policies as well as on nurturing and strengthening enterprises' mechanisms for self-regulation and control and self-constraint. 5) An important criterion for evaluating the limited buyer's market is whether relative price stability can be maintained, for the reform-induced rise in price level should be kept as much as possible within the confines of structural adjustment so that inflationary price increase can be strictly limited. 6) During steady economic growth, carry out structural reform in a gradual way.

II. Ownership Reform and Establishment of a Modern Enterprise System

A. Adjust the industrial structure of the national economy, and give play to the relative superiority of the state ownership system. In a mature market economy, the state ownership system enjoys relative advantages in such industries as those where there exist natural monopolies and where information is strongly monopolized, advanced-technology and infant industries, and those which have strong external effects. Therefore, it is not proper to devote the same effort to each industry. From this perspective, currently the state-owned sector has the problem of encompassing too many industries, with the front line being too long. It is necessary to shorten the front line and optimize the deployment of state assets through delimiting the areas where state asset investment is to be made, through selling small state-owned enterprises, through selling the stocks of some large- and medium-sized state-owned enterprises, etc. At the same time, the state should not indiscriminately use administrative means to support the state sector, much less give state-owned enterprises monopoly positions in competitive industries. But, the state should help them get rid of those heavy social burdens, and create for them

the conditions and environment for equal competition. Amid equal competition, the state sector should demonstrate its superiority by playing its special role and having high efficiency.

In order to improve the state sector's economic efficiency, state assets should come to be owned by entities of several levels and managed by nongovernment entities for business purposes. The issue of who are to have property rights over state assets should be settled according to the principle of letting the investor have ownership and reap the gains. Even when a government of a certain level has property rights over certain state assets, such state assets should not be directly managed by the government, but should be managed by nongovernment entities. Management by nongovernment entities is not the equivalent of privatization. In order to adjust the structure of the state sector, it should not be ruled out that some small state-owned enterprises are sold to collectives or private individuals; rather, it is necessary to carry out such sales. However, in terms of most of the enterprises, nongovernment-entity management means changing the traditional way of managing state-owned and state-run enterprises, severing the umbilical cord linking up enterprises with government, truly separating government from enterprises, carrying out diversified operations, and changing into using market economy methods of management. In this regard, it is necessary to resolve the following several issues in relation to managing and using state assets: 1) establishing and perfecting government agencies in charge of state assets; 2) establishing intermediary organizations which will use state assets for business purposes, such as various investment companies and holding companies; and 3) gradually making state assets exist in the form of value and increasing efficiency through the flow of assets and competitive operations.

B. Develop mixed economy, and adjust and reform the structure of ownership. Actively develop such nonstate-owned publicly owned economic entities as collective and cooperative economic entities. It is particularly necessary to pay attention to developing such new publicly owned entities as various foundations, so that they can play an important role in China's market economy. It is necessary to give nonpublic sector greater room for development. With the development of markets for factors of production, the improvement of financial reform, and the establishment of such modern market-economy systems as the joint stock system, various forms of ownership will infiltrate each other, and in more and more enterprises the differences between different forms of ownership will get increasingly blurred in the process of using and managing assets; the development of such mixed economy should be encouraged.

With the coexistence and mixing of several forms of ownership and the emergence of a mixed property-right structure, China's ownership structure will be characterized by many different kinds of investors at the macroeconomic level, but public ownership will continue to be dominant in terms of total capital; various forms of

ownership will infiltrate, and merge with, each other at the microeconomic level (within enterprises).

C. Rearrange property right relationships and establish a modern enterprise system. Both the transformation of state-owned enterprises' operating mechanisms and the development of nonstate-owned enterprises require that the enterprise system be renovated so as to recreate market actors. The basic line of thought on renovating the enterprise system calls for the establishment of a true enterprise legal-person system so that enterprises will have legal-person ownership rights over the assets under their management. The modern company is a typical legal person enterprise. In order to turn China's state-owned enterprises into real legal persons, it is necessary to vigorously carry out company-system reforms. It is necessary to change state-owned enterprises into joint-stock enterprises through rectifying the property right relationships between the center and the localities, through selling to collectives and individuals part of the existing assets or part of the increase in the assets of state-owned enterprises, through letting employees of the relevant enterprises and other people hold shares, through developing joint ventures, and through having legal persons hold shares or controlling shares. As for some enterprises which still need to be kept under state ownership and which do not have the conditions for introducing the joint-stock system, it is still necessary to sever the umbilical cord linking up the enterprises with government agencies, and manage those enterprises on the basis of treating them as nongovernment entities so that the enterprises can have legal-person ownership over the assets under their management. Inside the enterprises, it is necessary to implement the system of manager responsibility under the leadership of the board of directors so that the enterprises will become legal person enterprises without supervisory agencies. The joint-stock company has many forms. China should mainly develop the limited liability company and joint-stock limited-liability company. In addition, as the joint-stock limited-liability companies' stocks can be listed on the stock market, entailing strict requirements, it is necessary to maintain strict control. Only a small number of well-managed large enterprises may adopt such a form; most enterprises may only adopt the form of limited liability company or of joint-stock limited-liability company which can only raise funds from designated sources.

State-owned enterprises will adopt the joint-stock system. The state will only hold some shares, but not controlling shares, of enterprises in ordinary competitive industries; the state may hold controlling shares, or even all the shares, of a few large and extra-large enterprises which have significant impact on the national economy and people's lives. The specific proportions should be determined on the basis of considering the importance of the relevant industries and the extent of scattering of shares. State-owned shares may also be sold and transferred.

The adoption of a modern enterprise system requires transforming the vertical management-based, pyramid-like enterprise organizational structure suiting a planned economy into a horizontal management-based, network-like enterprise organizational structure suiting a market economy, in order that enterprises of different ownership statuses, of different regions, and of different sizes can have rational division of labor among themselves and complement each other in accordance with the demands raised by the development of market economy and socialized large-scale production. In the process of adjusting enterprises' organizational structures, it is particularly necessary to develop large enterprise groups in which large enterprises and name-brand and quality products assume the leading positions, of which core enterprises hold shares or controlling shares of related enterprises, and of which member enterprises hold each other's shares; and give play to their special role in such areas as scientific research, development of new products, implementing the state's plans and industrial policy, and international trade. But, enterprise groups must be economic entities formed through putting together a number of enterprises, instead of administrative regulatory agencies of government of a refurbished version.

III. A New Market Economic Order and Establishment of a Market System

A. Price reform is the key to the maturing of the market and the formation of a market system. The goal of China's price reform is to establish a market-based pricing system under macroeconomic regulation and control. The main tasks for the future are: to decontrol prices of competitive goods and services; to rectify prices of goods and services whose prices are set by the government; to introduce uniform renminbi (RMB) exchange rates and to adopt a system of floating exchange rates; to gradually link together prices on domestic and foreign markets (it is proper to first link together prices of tradable goods); to accelerate the process of having capital and land prices regulated by the market; and to gradually establish and develop a system of price regulation and control.

B. Accelerate the establishment of a new market-economy order. It is necessary to accelerate the making of laws on market order so that government's regulation of the market can move from a situation of rule of man to a situation of rule of law as soon as possible. Protect legal business activities; at the same time, it is necessary to resolutely ban, and crack down on, illegal activities which violate the law and which disrupt market order. Presently, it is particularly necessary to crack down on counterfeit, fake, and defective products.

C. Accelerate the establishment and development of a market system. While perfecting the goods market, it is necessary to focus on accelerating the reform and formation of factor markets.

1) It is necessary to delegate investment decision-making power, and vigorously develop the capital market (i.e., the financial market for financing of terms of one year or longer). In order to meet the needs of socialist market economy, it is necessary to reform the traditional investment system, and to achieve three changes in the investment area: Decisionmakers in profit-based investment activities change from government entities into private entities; the main source of investment funds change from fiscal appropriations into loans and fund raising; and investment decisionmakers and ultimate investors share investment risks. In conjunction with reforming the investment system, it is necessary to accelerate the development of the capital market. The real significance of developing the capital market lies in restoring the commodity nature of capital so that capital can be traded according to the principle of commodity exchange; as a result, capital can be properly distributed among various sectors of economic life so that capital can be used in an optimal way. To that end, it is necessary to establish a standardized capital-market system containing both direct capital markets and indirect capital markets. Furthermore, from a long-term point of view, developing capital markets mainly based on indirect fund raising should be the direction of China's reform of the capital system in the future.

2) It is necessary to accelerate the formation of a labor market, and to have wage distribution regulated by the market. The key to forming a labor market is to explicitly use the idea of labor market and to have the state renounce its special status as the employer and distributor so as to create conditions for two-way selections carried out by enterprises and workers. In regard to wage distribution, the state should gradually give up its status as the distributor of wages, and play well the macroeconomic regulation and control role and the supervisory role. In all its aspects including total wages, growth rate, and individual income, the distribution of wages which do not directly come from fiscal outlays should be entirely determined by enterprises. The state only controls the annual rate of wage increase in view of the rate of economic growth, regulates total wages and the level of individuals' wages through taxation, and protects the interests of workers through such means as minimum wage legislation. The wages which have to come from the state's fiscal outlays should be adjusted on the basis of referring to enterprises' wage levels and the situation regarding economic development in a timely manner, but should not be determined by the situation regarding fiscal revenues and expenditures, so that a mechanism for benign wage increase can be formed. At the same time, it is necessary to monetize all wages in kind and to turn hidden wages into nominal wages as soon as possible.

3) Further develop the urban land market and properly distribute returns on land. The goal of the reform of the system governing the use of urban land is to establish a set of systems appropriate to socialist market economy, and raise the efficiency in the allocation of urban land through relying on those systems. The set of systems should mainly include: the system of property rights over urban land, the system of urban land markets, the system of distribution of returns on urban land, and the system of urban land planning and management.

4) Deepen the reform of the urban housing system through raising rent and selling housing at the same time. It is necessary to step up the commercialization of housing. Housing rent should be gradually raised; housing rent should in general amount to around 10 percent of an employee's income. In order to make sure that people's decisions on choosing to buy or rent housing are not skewed, there should be a balanced relationship between the rent level and the housing price, that is, that the current value of rent for a certain number of years should largely equal the price of housing.

5) On the basis of considering the actual situation in China and under the principle of a modern social security system, establish a social security system covering all workers. In view of the actual situation in China, for some time to come we can only strive to make sure that all workers across society can enjoy a certain degree of social security; it is not proper to single-mindedly pursue the goal of having all workers enjoy basically the same benefits. Consequently, it is necessary to establish a social security system which provides different benefits in view of the different characteristics of workers of government agencies, employees of enterprises and public institutions, and urban and rural residents. The principle governing the source and use of social security funds is as follows: individuals and enterprises are required to pay social security assessment; the amount paid by an individual and the amount paid by the employer for that individual should all be counted as belonging to that individual, and generally the practice of using the relevant amount for the relevant individual will be adopted; the level of social security benefits will be low at the beginning, that is, starting from giving old-age and unemployment benefits and then gradually moving toward giving medical, housing, education, and other benefits.

6) Accelerate the reform of organizations dealing with foreigners, and gradually link up with the international market. The goal of the reform of the organizations dealing with foreigners is to establish an open economic system and a neutral trade environment, that is, to create a policy environment which neither particularly encourages exports nor particularly encourages imports. The core of the reforms of the foreign trade and foreign exchange systems is to achieve the transition from direct administrative management to market-based regulation and control. The reform relating to foreign capital and foreign debt should be coordinated with unified, neutral national tax and credit policies. Reforms can be arranged

in such a way as to move from trade and foreign exchange to foreign capital and foreign debt on the basis of combining macroeconomic regulation and control with micro-level independent actions. Start with the market allocation of foreign exchange and the market determination of exchange rates, unify the foreign exchange market nationwide, and gradually introduce uniform exchange rates; implement current-account RMB convertibility under the precondition of keeping the stimulus level constant; and remove the protection, and tilting in favor, of the first-generation import substitution industries during the Ninth Five-Year Plan period. Accomplish the reform goal by the end of the century.

IV. Improve Rural Economic Reform and Promote Rural Economic Development

A. It is necessary to truly establish the peasants' status as the main actor in rural market economy, and give the peasants production and exchange autonomy. In addition, encourage some peasants to leave agricultural production and run enterprises which market agricultural products and which supply industrial products to rural areas, so as to organize rural commodity economy in an organic way.

B. Transferring rural labor force is an important issue that has to be resolved in order to develop the rural economy. From a long-term perspective, the fundamental way to resolve the issue of transferring rural population still lies in developing township enterprises and small towns, although existing cities and the economically developed coastal regions can absorb some labor force.

C. In order to resolve some current problems in the management and use of rural land, it is proper to consider giving peasants the long-term (for instance, 50 years) use right over land and allowing compensated transfers under the precondition of not changing the ownership system.

D. Currently, the experiments on various forms of the joint-stock cooperative system in rural areas nationwide have produced good results, but, from a long-term point of view, the joint-stock cooperative system should ultimately turn into either the standardized joint-stock system or the standardized cooperative system.

E. The reform of the agricultural tax system can be governed by the plan of "regularizing tax, making rent explicit, and eliminating other levies." The state should appropriately raise the agricultural tax, after lifting restrictions on the agricultural product market in an overall manner. The relations between peasants and community organizations are relations between rent payers and rent collectors; all contract-based as well as extracontract retention should be eliminated; and land rent should be determined according to the quantity and quality of the contracted land. Aside from the taxes paid to the state and the rent paid to community organizations, the peasants are not subject to any other levies.

V. Transforming Government's Function and Macroeconomic Regulation, Control

A. The key to transforming government's function lies in handling well the relationships between its three statuses—as the regulator of society, as the entity exercising macroeconomic regulation and control, and as the owner of state-owned enterprises; it is necessary to proceed with the transformation in conjunction with the reform of state-owned enterprises. At the same time, it is not only necessary to terminate the practice of giving state-owned enterprises "ranks" on the basis of referring to the ranks of government agencies, but also necessary to block up the channel through which civil servants can get jobs in state-owned enterprises. The employees who are made surplus personnel by the process of transforming government's function can form companies, but they must thoroughly sever their ties to government agencies; furthermore, it is not permitted to get ownership over enterprises through using administrative power.

B. Give appropriate positions to planning, fiscal work, and finance in the state's system of macroeconomic regulation and control. Our views on the relationships between the three are as follows: 1) Plans and fiscal and financial policies play their roles together in the macroeconomic regulation and control of an economy, and would change with the changes in the stage of economic development and the degree of maturity of market economy. 2) After the economic takeoff in a country, as the market is well-established to some extent, the planning agencies would no longer be capable of exercising substantive regulation and control over the functioning of the economy and would inevitably move toward making long-range analyses and providing policy guidance, while the fiscal agencies and financial institutions would jointly play the role of exercising substantive regulation and control over the economy. 3) Planning, fiscal work, and finance all play irreplaceable roles in the system of macroeconomic regulation and control. Planning is good at showing the general trends and pointing out medium- and long-range development directions; fiscal work is good at stabilizing the economy and ensuring fairness in income distribution; and finance is good at shaping the economic environment and exercising routine regulation. 4) Fiscal work and finance regulate and control the flow of capital, and the focus of the regulation and control is placed on maintaining near-term equilibrium between aggregates through managing aggregate demand. For now, there is no need to be anxious to change the relations between the planning agencies, fiscal agencies, and financial institutions, but it is still necessary to note the future development trend, and to make preparations so as to be able to adapt to changes in the future.

C. Clearly demarcate the respective authority of the center and the localities over various matters, so as to eliminate frictions and antagonism. In regard to handling the relations between the center and the localities, the main issues to be considered should be the following:

To maintain the prosperity and steady development of China, a certain degree of central-level concentration of power is absolutely necessary; it is necessary to recognize and respect local interests, but the localities should not be in a situation characterized by "drawing a circle on the ground to serve as a prison [establishing artificial boundaries] and "economies of the dukes and princes."

D. The goal of the reform of the fiscal system is to have "separate systems" but not to "divide tax revenues." The separate taxation system is a system of dividing revenues, but not a system of budgeting. It would be very difficult to resolve the problems, if we only concentrate on dividing revenues. A more thorough and proper approach is to introduce a system of multi-level budgeting. The main contents are as follows: A central taxation system and local taxation system are established separately to govern fiscal revenues; governments of various levels have corresponding autonomy over fiscal expenditures; establish a standardized system of payments and transfers from the center to the localities; the central budget and local budgets are separated, and are to be balanced independently; local governments have the authority to issue local government bonds so as to increase capital account revenues. Thus, it is necessary to rectify the budgetary situation in the near future, resolving the issues of budgetary, extrabudgetary, and nonstandardized revenues and expenditures and reducing fiscal deficit.

E. Expand the tax base and perfect the taxation system. The key part of the reform of the taxation system in the future is: to perfect the system of indirect taxes; to establish a unified system of income tax; to perfect the system of individual income tax; and to perfect the tax structure.

F. Promote the reform of the financial system by starting with diversifying financial institutions. The contents of financial reform should include: separating commercial finance from policy-based finance; diversifying financial institutions; diversifying financial instruments; having interest rates regulated by the market; changing macroeconomic regulation and control into being carried out indirectly, and reforming the People's Bank of China so as to turn it into a true central bank, etc.

G. Form an economic system conducive to implementing industrial policy. Under the condition of market economy, the development of most industries will be determined by market mechanisms, and the government's industrial policy should focus on a few key industries and a few key products, with its role being that of making up market deficiencies and redressing market failures. While prices are rectified, industrial policy is implemented mainly through giving fiscal appropriations and issuing policy-based bank loans.

PROVINCIAL

Changsha Mayor Highlights City's Opening Up

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[Article: "Changsha, Investors' Paradise; Interview with Changsha Mayor Zhang Mingtai"]

[Text] Changsha is an ancient city with a civilization dating back more than 3,000 years. It is a valued fairyland formerly known far and wide for remarkable people and splendid things. A brand new page in modernization was turned for this famous ancient cultural city with the upsurge of reform and opening up to the outside world, particularly after the spring wind of Comrade Deng Xiaoping's southern tour. The Changsha of today shows a marked rise in opening to the outside and developing reforms. A day ago, our reporter interviewed Changsha Mayor Zhang Mingtai [1728 2492 3141].

[Reporter] At home and abroad everyone is familiar with the ancient city of Changsha and its glorious past. Could you give us the basics about the current situation?

[Zhang Mingtai] It is a pleasure to have this interview. Sincere thanks go to CHING-CHI TAO-PAO SHE for providing readers at home and abroad with more information regarding Changsha.

Changsha is the capital of Hunan province. It is the central city supporting the Dongting Lake open zone of the Chang Jiang River open area which implements coastal open city policies and enjoys provincial level economic management jurisdiction. It was one of the first tourist cities open to the outside world and among the first group of 24 famous historical and cultural cities announced by the State Council. Changsha administers five regions: east, west, north, south and the suburbs. It also administers three counties: Changsha, Wangcheng and Ningxiang plus the city of Liuyang which covers an area of 11,800 sq km with a total population of 5.55 million, of which the urban area is 367 sq km with a population of 1.37 million. Changsha is a beautiful old southern Chinese city with an ancient history, located at 118 degrees E and 28 degrees N. Within Changsha the mountain and river scenery are reflective; the Hsiang Jiang River flows northward dividing the city into two natural areas of east and west. In his poem "Changsha, Chin Park in the Spring," Chairman Mao Zedong vividly portrayed Changsha: "Northward flows the Hsiang Jiang River, tangerines cover the islets. Viewing the myriad vermillion mountains, the depths of the endless forest. The slow water reveals bluish-green hues, while scores of barges compete for space."

[Reporter] Changsha is an ancient inland city. Please discuss the situation since the beginning of the 1980s and the evident success with the many measures adopted in opening up to the outside world.

[Zhang Mingtai] In recent years the main measures adopted have been an unlocking of the city's gates and coming out from behind closed doors. We have boldly introduced advanced management experience and transformed the enterprise operating mechanism by boldly accepting all experience and methods—domestic and foreign, Chinese and overseas, within and without—beneficial to developing productivity with regard to foreign trade, utilizing foreign investment, introducing technology, exchanging human talent, foreign contract projects and labor cooperation. Moreover, we have taken in all that is advanced and civilized from humanity by recruiting business and investment. At present citywide there are 660 of the three kinds of foreign-invested enterprises with a total investment of \$1.41 billion and contracts utilizing foreign investment worth \$483 million. In particular, we have further readjusted the industrial and product mix via technological transformation and introductions. A group of famous, new, special and high technology products exhibit strong vitality. The "Milky Way II 100 billion calculations per second computer system," "Milky Way Fully Alphanumeric Simulation II Computer," "hybrid rice," and "test tube babies" are all items born in Changsha which are at advanced international levels or the same level as high or new technology international products. At present Changsha's economic strength clearly is growing according to the state's strategic goal of "taking three paces." Thus in 1987 a first doubling was achieved ahead of time. In 1992, GNP, national income and gross industrial and agricultural output value were respectively double, 1.95 times, and 2.4 times that of 1980. Urban workers' living expense income rose 3.6-fold while average per capita peasant incomes rose 1.4-fold. Each of the administered three counties and one city were among the 100 strong nationwide commodity and grain production bases and meat producing counties (cities). In 1992, Changsha ranked seventh among China's top 10 for environmental improvement, ninth among 188 cities at local level and above in terms of economic and social development, and 20th among 50 cities for overall economic strength. The city's appearance has greatly changed. There is new infrastructure in new roads, bridges, waterways and gas lines. Daily water power approaches one million tons. A project to provide 210,000 cubic litres daily of gas from coal was a success on the first try. More than 20 large and small bridges were newly built, including the Xiang Jiang River No 2 bridge, the Yuanjia suspension bridge and the Furong Road bridge. There are also Hunan's first grade one road exclusively for vehicle use, projects linking the east and west of the Xiang Jiang River No 2 bridge, another grade one line exclusively for vehicle use, and work will begin and investment will be put to use within a year on Changlao Road to open up Changsha's northern door. The road will be 60 meters wide. Construction of nearly 10 km of the main north-south artery of Furong Road running through Changsha is a priority. Investment will be used and work begun in 1994. At the same time, a group of key projects approved by the state are under

priority construction. Preparations for the Chang[sha]-Shi[chiachuang] railway and electrification of the Wang-Cheng line are under way. Changsha has advanced telecommunications technology and complete telecommunications means. The city's telephone rate is five percentage points higher than average levels for China's provincial capitals. These things all are the result of reform and opening up to the outside world.

[Reporter] Hearing your information, Mr. Mayor, we feel that Changsha has a very lively and vigorous economy. Could you say a bit about Changsha's economic development strategy, goals and priorities?

[Zhang Mingtai] After Comrade Deng Xiaoping toured the south in 1992, according to his strategic thinking of "not losing the opportunity," we promptly readjusted Changsha's entire economic development strategy to one of "science and technology at the forefront, equal stress on the four communications (circulation, transportation, financial circulation and telecommunications), structural readjustment, opening to the outside world, and promoting the goal of quadrupling output." We used the principle of doing our all and moving from positions of strength to advance the date of quadrupling four years ahead or even earlier. Prominent goals include infrastructure such as waterways, bridges, electricity and roads. Firmly upholding agriculture is a priority for developing a national economic base. The aim is to turn Changsha into a modern city suited to the needs of a socialist market economy with full capacities, a good environment, developed economics and trade, and flourishing tourism in the near future.

[Reporter] China's present overall domestic economic situation is good, but there still are difficulties and problems, some of which are relatively serious. Could you discuss the major difficulties and problems in Changsha's economic life as well as what methods will be adopted to resolve these issues?

[Zhang Mingtai] Just like China itself, at present the overall economic situation is good but there are also many problems. For example, funds are tight. Development is imbalanced. These are issues and problems which arise in moving forward and developing. We believe that whether work goes smoothly or not, both situations are opportunities. The crux to overcoming difficulties is further reform and more openness. The key is to strengthen such fundamental items as agriculture, science and technology, and infrastructure. At the same time, we must uphold the notion of "grasping with both hands" and enhance spiritual and cultural work. Therefore, we will further enhance Changsha's economic vitality according to the needs of "one center and two basic points" and "three benefits" to seize the chance, cherish it and use it well to further liberate our thinking, seek truth from facts, confirm our successes, have resolute confidence and firmly uphold development.

[Reporter] We would like to ask Mayor Zhang a final question: What aim do you hope to achieve by recruiting businessmen to Changsha from here in Hong Kong?

[Zhang Mingtai] The aim of our press meeting naturally is to recruit businessmen and investment, and to allow the world to understand more about Changsha so Changsha can go out into the world more quickly.

We desire cooperation in various forms in good faith with all friendly people at home and abroad, within Changsha and without, in Chinese and foreign economic, industrial, commercial and financial circles. We warmly welcome everyone to visit Changsha as tourists, see relatives and friends, discuss business, invest in factories, set up shops and other entities. We will continue to abide by the principles of common development in which you benefit first and we benefit later and there is mutual benefit and profit to develop resources and production. We will provide every convenience to investors in Changsha to see that they arrive happily and go home with profits.

FINANCE, BANKING

Contradictions in Financial Operations Discussed

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16 Aug 93 p 3

[Article by Ma Shengnan (7456 0524 7181) and Luo Baotian (5012 1405 3944), Shijiazhuang Branch of the Chinese People's Bank: "Effective Macro-Regulation and Control Is the First and Most Important Step in the Ongoing Financial Reform—Our Views On the Contradictions Faced in Present Financial Operations and on Methods To Resolve Them"]

[Text] Since last year, the national economy has entered a phase of rapid growth. However, rapid economic growth has also been accompanied by some new problems, such as the problem of rapid growth in relation to the overall economic balance, and the problem of rapid growth in relation to structural readjustments. The emergence of these problems and contradictions has engendered some of the present deep-rooted contradictions and problems in the macroeconomic regulation and control of currency and credit. It is our intention to discuss here with our colleagues the contradictions faced in the present financial operations and methods to resolve these contradictions.

I. Contradiction Between Extraordinarily Rapid Economic Development and Strict Control of Total Credit Volume

Since last year, high and new technology development zones, economic development zones, tertiary industries, and economic entities have been set up one after another, fixed-asset investments have greatly increased, and opening up to the outside world and economic development have been markedly accelerated. All this has created strong demand for capital funds, which has

in turn resulted in great pressure on the operations of the People's Bank. In the present macroeconomic regulation and control of currency and credits, the basic-level branches of the People's Bank find themselves in a "three great, one small" situation, namely:

Great responsibility—guarding the two "sluice gates" of granting credits and issuing currency, according to the demands of macro-regulation and control decreed by higher authority; great pressure—as everywhere large projects are being presented and extraordinary developments are experienced, while banks can provide only limited funds, with contradictions coming to a head at the People's Bank branches; and great difficulty—being obliged to implement the state's financial macroeconomic regulation and control policy, while equally obliged to support extraordinarily active local economic development, the People's Bank branches find themselves at a crossroads of contradictions. Small capabilities mean faced with this critical situation, the People's Bank's regulatory and control measures are ineffectual. Especially since the start of this year, the capital funds situation has been extremely grim and governments at all levels and enterprises are clamoring loudly for a resolution to the financial situation.

How to effectively deal with the relationship between rapid economic growth and appropriate increases of bank credits is a problem that demands urgent solution. Deepened reform is the way to resolve this contradiction. First, strengthen the central bank's function of independently implementing currency policy. For instance, establish a prompt and effective operational mechanism to exercise the power of determining the total credit volume, the power to regulate basic currency circulation and adjustment of interest rates, and the power to control the money market.

Second, strengthen the control of banking institutions. Government agencies must not have the right of examination and approval of banking institutions, but this right should belong rather to the People's Bank, which should unitedly arrange for the establishment, abolition, and merger of banking institutions, according to developments in the economy and in the banking business, ensuring a proper distribution of such institutions to stop dissipation of financial resources.

Third, strengthen control over the securities business. Issuing and transferring every kind of negotiable security falls within the scope of banking, and must be made part of the annual social credit plan of the People's Bank, also to be unifiedly administered by the People's Bank, in order to protect good order in the money market and to block channels through which capital funds could dissipate.

Fourth, strengthen unified control over foreign exchange and foreign debts, strengthen control over the foreign-exchange adjustment market and control of the standardization of the exchange rate system so as to lay an optimal foundation for banks and enterprises in their efforts at further opening up to the outside world.

Fifth, effectively delegate powers and grant authority within a certain sphere and to a certain degree to the basic-level branches of the central bank to effect regulation and control. For instance, the power to control interest rate fluctuations, the power to adjust the scope of overall credit volume, the power to regulate and control the ratio of reserve funds and of reserve for payments funds in order to achieve a closer link between macroeconomic control and local conditions and to achieve greater effectiveness.

II. Contradiction Between Planned Interest Rates, Efforts To Attract Deposits

The interest rate is the price of capital funds, and it has a directional function in guiding the amount and direction of the flow of capital. In the last few years, the disparity between state-fixed interest rates and market-regulated interest rates, and the delay in adjusting the policy on interest rates, has resulted in the negative situation of large declines in bank deposits. At present, the general public is much wiser about monetary matters and savings deposits are not the only alternative for investments. If the interest rate is below the rate at which the commodity price index rises, this is a situation which is highly unfavorable for the desired withdrawal of currency from circulation. Initiation of the socialist market economy should be followed by a reform of the interest rate policy, namely toward a gradual transition from planned interest rates to market interest rates. The main idea of such a reform should be to have the whole interest system comprise basic interest rates, floating interest rates, market interest rates, trade-related interest rates, and prime rates of interest. Determination of interest rates must pay attention to three problems:

- 1) Interest for deposits must be higher than the rise in the commodity price index. Depositors must be able to gain benefits from their savings deposits, or at least preserve their values.
- 2) Interest rates for long-term loans must be higher than for short-term loans, to regulate the flow of capital funds.
- 3) Interests for fiduciary loans must be higher than for loans against collateral, because of the difference in risks involved.

As for application of the interest policy and its control:

- 1) The central bank shall control the basic interest rate, and shall effect regulation, control, and guidance through publication of the bank's rediscount rate;
- 2) the range of the floating interest rate shall be widened, in order to allow the transacting bank to make such adjustments as are justified by the money supply and demand situation;
- 3) interest rates of urban and rural credit cooperatives shall be appropriately deregulated, and money market interests shall be determined by negotiations between the supply and the demand sides;

4) trade-related interest rates shall be properly integrated with the state's adjustments of the industrial structure and product mix. Trade-related interest rates may be held low for enterprises, projects, or products which the government wishes to support, so as to further their development. These rates may be somewhat higher for such lines of trade which the government wishes to restrict, in order to negatively influence their development or to speed up their closing down, stoppage, merger, or retooling;

5) in case of prime rates of interest, the principle shall be "who decides on granting the prime rate must pay for interests withheld" and promptly make good the difference. At the same time, control over the floating interest rates should be appropriately delegated to lower levels, in order to better conform to China's actual national conditions, China being a country with a vast territory but uneven economic developments.

III. Contradiction Between Specialized Banks in Trade Competition and Financial Policy Control by the Central Bank

Under the present conditions of a large number of banking institutions operating in fierce competition, some banks will use relaxation in controls as a means of gaining an advantage in competition and to attract customers and gather in deposits, but this will engender a series of problems. For instance, enterprises will open several accounts under different headings, and borrow under different headings, which will then disperse the limited credit resources available in all directions, and will certainly run counter to the objectives of "ensuring development of the basic points and adjusting the economic structure." It will furthermore afford enterprises with the opportunity to escape supervision by the banks, enlarge the credit risk coefficient, and lead to a deterioration of credit assets in the hands of the banks.

To resolve this contradiction we must firmly implement the policies and rules of the central bank. These are to focus on strengthening control of accounts, on instituting an approval system for credits, on strengthening the control of ready cash, guiding and reducing cash circulation, on improving the forms of settlement, on having the People's Bank unifiedly organize the various financial institutions for the improvement and establishment of a settlement form for enterprise commodity exchanges, on the greater convenience of the enterprises and on reducing cash circulation. Intercity and inter-trade settlements are to be key items for improvement, focusing on uninhibited mutual remittances and mutual conversions into ready cash. For instance, the People's Bank could combine credit cards, now being issued by the various specialized banks, into one joint network so that, as a great convenience, all cards issued could be used for mutually depositing and withdrawing of cash.

IV. Contradiction Between Business of a Commercial Nature and Business of a Policy Nature

The objective of commercial banking is to earn a profit. However, at present, specialized banks also have to conduct banking of a policy nature and are thereby undertaking a part of the macro-regulatory task of the central bank. Presently, driven by the profit motive, specialized banks are, consciously or unconsciously, giving less attention to this line of business in their banking operations, as is mainly evident in fiscal deposits being mixed in with enterprise deposits and used for other than fiscal purposes. Portions of funds for the procurement of agricultural products and funds for the relief of poverty are not being properly managed. Banking of a policy nature is undesired by the specialized banks and impossible to control by the central bank. The result is a weakening of the macro-regulatory and control function of the central bank.

To ensure that capital, wherever it may be, is used rationally and is under macro-control, to prevent indiscriminately withdrawal of capital in the competition between specialized banks, one effective way would be to establish a separate policy-oriented bank.

First, this would be beneficial for strengthening the macro-control of the central bank. The People's Bank would not have to conduct such general banking tasks as granting credit for special projects. It would establish an image of fairness, and would carry out the functions of financial macro-regulation and control in a very detached way through economic means, legal means, and administrative means.

Second, it would be beneficial for giving further impetus to the reform of the business mechanism in the specialized banks, also to prevent the specialized banks from unjustifiedly retaining and illegally using funds of the central bank, i.e., "eating from the big pot" of the central bank. It would also resolve the problem of having policy-oriented loans adversely affect business objectives and the profit level of the specialized banks. It would at the same time prevent the various losses due to public finance overdrawn its accounts with banks, remaining in arrears with make-up payments and allocations, leaving items as "on account," and illegally retaining bank loans.

Third, it would be beneficial for having the government directly control financial credit and conduct macro-economic regulation and control.

V. Contradiction Between Strengthening Financial Macro-Control and Weakening of Macro-Control by Financial Operations of Society at Large

Since last year, in the wake of the developing market economy, financial institutions of various kinds have come into being, and credit activities outside the banking system are now continuously expanding. The People's Bank cannot exercise control and can no more exercise macro-control of financial affairs. The total

volume of credit that is still subject to regulation and control constitutes only a portion of the total social credit. We may therefore also say that macro-control is gradually weakening, and this is particularly evident in the following two respects:

First, non-bank institutions are conducting banking business. With the present shortage of capital funds, enterprises and government agencies hope that more financial institutions set up business and resolve the difficulty of providing capital funds. Financial companies, investment companies, and foundations have sprung up in great numbers, without the approval of the People's Bank.

Second, the money market is in a chaotic state. As bank loans cannot be obtained in sufficient amounts to satisfy the demand from enterprises for capital funds, enterprises borrow directly from the market. However, the system of supervising securities is presently in a chaotic state, and there is no agency in charge of unified control and of maintaining a proper equilibrium. Government bonds are issued by the Ministry of Finance, bonds issued by enterprises are checked and approved by the State Planning Commission, the issue of shares is checked and approved by the State Commission for Restructuring the Economic System, and short-term promissory notes are checked and approved by the People's Bank. There are thus four agencies, each in charge of one sector. As a result, the proportion of non-bank capital within the total volume of social capital is increasing, capital use tends to become scattered in all directions, and the People's Bank's measures of macro-regulation and control to achieve a planned balance of the year's overall credit have not been used.

To resolve the above-stated contradictions it is furthermore necessary to accelerate banking legislation. In our opinion, it is presently necessary to accomplish legislation in the following respects:

First, formulation of a "Central Bank Law" to strengthen the authoritative character of the central bank, ensure its law-based regulation and control of the total volume of currency supply, and to maintain a comparatively stable independence of the currency. Second, delimiting the separate spheres of business for policy-oriented banks and commercial and specialized banks so that, for instance, fiscal deposits are deposited in policy-oriented banks. When indiscriminate misdirection or disorderly placement of such deposits is detected, half of the deposit should be confiscated, or other severe penalties imposed, to strictly uphold monetary discipline. Third, the state shall determine a uniform policy, clarify functions, and effectively coordinate banking and fiscal activities. For instance, it must make clear what are business affairs pertaining to the national debt and what is noncommercial foreign exchange business, and must clarify the concentration and use of capital outside the fiscal budget.

Issues on Establishment of Socialist Commercial Banks

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[Article by Lu Ligui (0712 4539 2710) and Huang Guobiao (7806 0948 2871), Suburban Branch Bank, Yancheng City, Jiangsu Province, and responsible editor Xie Wei (6200 5898): "On the Question of Establishing Socialist Commercial Banks"]

[Text] I. Present Significance of Establishing Socialist Commercial Banks

Starting with the 1986 decision of the State Council to reconstitute the Bank of Communications [BoC], altogether eight banks were one after the other newly established in China, namely [apart from the BoC]:

The Zhongxin Industrial Bank, the Guangdong Development Bank, the Shenzhen Development Bank, the Zhaoshang Bank, the Fujian Xingye Bank, the Guangda Bank, the Huaxia Bank.

These eight banks are forerunners in that they are primarily business oriented, have introduced a competitive mechanism, and are providing enterprises with financial services of high quality, high effectiveness, in a variety of functions, and over a comprehensive range of business activities. They also emulate advanced management systems of commercial banks in other countries by adopting a management system with independence in business operations, responsibility for own profits and losses, and assumption of all risks, striving for economic equilibrium, self-restraint, and self-development. They are vigorously exploring ways to create socialist commercial banks and function as experimental fields in the reform of the financial system. Facts have proven that the development in China of socialist commercial banks is of extremely important topical significance, for the following reasons:

First, it is beneficial for motivating the enterprises to move toward the market. The most striking manifestation in the general trend toward the market, that is now apparent in China's reform of the economic system, is the motivation of enterprises to move toward the market, because this will truly convert them into independent production and trading entities. It is very obvious that once the enterprises will have moved toward the market, the banks that are confronting them should equally be banks that trade in commodities. It is a fact that banks have in recent years indeed changed

from the past practice of completely monopolizing special lines of business to the practice of operations of "one line being merely the line of primary concern, allowing rational competition, and with an appropriate extent of overlapping." However, since the terms "rational" and "appropriate" have no fixed meanings—consider also the formulation "primarily concerned with one line"—development of free choices and free competition is actually restricted. On the enterprise side, it had amounted to being able to have accounts and take on loans only at one prescribed bank. As it is now so difficult to get approval of direct financing in the market, there actually does not exist any market at all for most of the enterprises, as far as capital funds are concerned. This fact has a very serious adverse effect on attempts to modify business mechanism in the enterprises. On the other hand, commercial banks that firmly maintain the trend toward the market, and whose main concern is optimization of fund allocations, are bound to use the advantages of their position as commercial banks to break down all barriers of trade lines and regions. They will launch overall competition, and as a consequence improve the quality of all their financial services, as they will also motivate enterprises to move toward the market.

Second, it is beneficial for linking up with international finance. At present, China's rejoining the General Agreement on Tariffs and Trade [GATT] is close at hand, and it is beyond doubt that GATT will be a most disturbing blow to China's finance industry. After rejoining GATT, foreign financial services will enter in large volume to compete with domestic financial institutions. This competition will not be limited to the "software" of prices and interest rates for money and commodities, but also competition in the "hardware" of product mix in connection with financial services, the quality of financial services, the after-sale services, etc. At present, China's specialized banks are not only disadvantaged in the competition by the macroeconomic system, but also by certain deficiencies in their very own business mechanism. For a long period of time, specialized banks have been merely the state's agencies for credit distribution; they have never been able to become true enterprises dealing independently in money and in commodities. Most of their business operations had been of the policy-oriented type, much interfered with by local administrative agencies, with a lopsided assets-liabilities ratio, not in keeping with international standards, and little able to cope with risks. In the case of commercial banks, on the other hand, profits are primary consideration, and economic benefits are their motivating mechanism. They maintain a kind of "survival of the fittest" adventurous spirit, and this no doubt conforms to competition at international standards and to competition along rational lines.

Third, it is beneficial for an improvement of the quality of credit assets. In matters of credit assets, commercial banks strictly control the assets-liabilities ratio and the risks. These banks have full authority in the handling of

their assets. Such questions as whether to loan, to loan how much, to whom to loan, etc. the banks will decide themselves according to market conditions. Banks are not intended to be the main suppliers of capital funds to enterprises, their relationship is rather one of mutual benefit, resting on the fulcrum of a commodity relationship. Banks deal strictly according to economic rules, and will, as a matter of principle, strengthen their ability to freely grant loans of their own accord, and strengthen their ability to resist interferences by man-made factors. They will definitely endeavor to ensure the safety and liquidity of credit capital and its appreciating value. However, the specialized banks have all along employed the method of macroeconomic control in the management of their capital funds, measuring out the amount of aggregate credits according to the state plan. The specialized banks are strictly adhering to this pattern, and in actual fact lack business autonomy, and furthermore operate simply as redistributors of credits, while a very large proportion of their own credit operations is of the policy-oriented type. Comparing the management methods employed by the specialized banks with that of the commercial banks, it is immediately obvious which is the more scientific.

To sum up, establishing Chinese socialist commercial banks is not only necessary to meet the needs of the market economy system and to serve the establishment of market economy, but is also the trend which is objectively necessary in the development of China's finance industry.

II. Focal Point in the Establishment of Socialist Commercial Banks Is the Substantial Reform of Specialized Banks

As early as 1984, China instituted a "dual-rank" banking system, suited to the modern market economy, but in actual fact the central bank still maintained a part of the functions of the specialized banks, and, conversely, the specialized banks assumed some functions of the central bank. This system is far removed from what is the practice with commercial banks abroad, and far removed from the demand for a long-term development of a system of independently established banks. It is therefore a focal point in the establishment of Chinese socialist commercial banks to effect as soon as possible a substantial reform of the specialized banks.

A. The problem of accounting for policy-oriented loan activities. In China, the specialized banks are supposed to serve as the state's organs of economic control, to effect macroeconomic regulation and control of the national economy, but on the other hand also as ordinary financial enterprises, using their capital to produce profits. Obviously, there will be contradictions and clashes between these two functions. A reform target that demands of the specialized banks that they fulfill both tasks is unrealistic, and the reform of the financial system, which has conversion of the banks into enterprises as its core, would then also be inherently impractical. As a bank, the institution would have to chose

between macro-regulation and control, on the one hand, and microeconomic business operations, on the other hand. The contradictions between the two bank functions cannot be reconciled. Demanding of them that they be organs of the government administration and at the same time financial enterprises has them in the end vacillate between the "two ranks," and a true unison is here impossible to achieve. This has indeed for a long time been the decisive factor in our failure to make real progress in converting the specialized banks into enterprises. To get ahead in our reform of the specialized banks into commercial banks we must not take the same disastrous road of past reforms, making the specialized banks into something that is neither fish nor fowl, a government organ that does not seem to be government organ, an enterprise that does not seem to be enterprise. We must devise appropriate and effective ways of resolving the problem of the policy-oriented loan business. Actually, policy-oriented loan tasks of China's banks are just now gradually declining. Loans for the procurement of agricultural products are the largest policy-oriented item among China's bank loans. In 1978, the government maintained control over 113 types of agricultural products. Most of these have by now been decontrolled, and a small number of remaining items, such as cotton, tobacco, silkworm cocoons, will also be gradually decontrolled. The proportion of grain to be procured under state plan will also be gradually reduced. In quite a number of provinces and municipalities the procurement of grain under fixed quotas has been abolished or is about to be abolished. Evidently, in the wake of the rapidly developing socialist market economy, there are bound to be less and less policy-oriented loans in China, and they will finally disappear. However, for a certain period of time, they will still exist, and judging by the present situation, the few large specialized banks should first of all separate policy-oriented loans from commercial loan business, and then also adopt different methods of accounting and management for the different types of business operations. Special accounts must be kept for policy-oriented business, and losses from such operations must be deducted from any profits turned over to the state, or such losses should be compensated by subsidies from the relevant decision-making government agencies. This should be a precondition during the transitional stage of converting the specialized banks into commercial banks.

B. The problem of the form in which the central bank is to exercise regulation and control. In times of economic upswing, every country will proportionately intensify financial control. This is the case in developed countries with over hundred years of commodity economy, as well as where financial liberalization has gradually been taking place since the middle of this century. As to China's present economic level, it would be impossible without macro-regulation and control of financial affairs to ensure sound development of its market economy. The need to strengthen financial macroeconomic regulation and control is therefore beyond doubt. However,

financial macroeconomic regulation and control is presently exercised in China predominantly by administrative and direct regulation and control, and that leaves the specialized banks with no vitality to speak of in their own business operations. Only by changing direct to indirect regulation and control, by changing administrative to economic measures in regulation and control, will it possible to truly establish socialist commercial banks in China. As to the indirect methods of financial regulation and control, this refers primarily to imparting to credit and interest operations the flexibility of market supply and demand. When there is ample loan capital available and supplies are plentiful, interest rates must go down, and there will be an easy money market. When sources of credit capital are restricted and supplies are insufficient, interest rates will go up, and there will be a tight money market. This is a process that manifests the self-restrictive function of commercial banks. Once there is this market flexibility in the operations of the commercial banks, the central bank can really limit itself to using reserve funds, discount rates, and the open marketing function—comparable to the "three precious things of Buddhism"—to control the currency supply and thus exercise macroeconomic regulation and control. Without this market-oriented operational mechanism, to be manipulated by the commercial banks, credits and interests will still be merely means of administrative distribution, rather than true means of economic regulatory adjustments, and it would be impossible to transform direct regulation and control into truly indirect regulation and control. At present, conditions for the employment of the said "three precious things" are not yet extant in China, but such conditions should be vigorously created by:

1. Studying and gradually instituting for commercial banks a graded system of reserves against deposits, a system of reserves against deposits classified according to the degree of risks involved.
2. Extending rediscount activities, reducing and controlling the granting of fiduciary credits by the central bank to financial organs.
3. Initiating and expanding business activities on the open market, restricting loans by the central bank.

In this way it will be possible to gradually shift from administrative measures of control to economic measures of control.

C. The problem of measures to be taken to transform the specialized banks. How are we to transform China's specialized banks into state-owned commercial banks? What we have in mind is that the four banks, the Industrial and Commercial Bank, the Agricultural Bank, the People's Construction Bank, and the Bank of China, should be split up into four to six commercial banks, according to China's large administrative regions. After the breakup, each of the commercial banks may set up branches outside its territory and may also set up financial organizations abroad. Restrictive barriers for certain

business lines or by division of labor that existed between the various banks, should be broken down, as the business objective should be to engage in any kind of financial business, domestic or abroad. On this basis, every commercial bank is expected to adopt effective measures, to enhance its strength, to resolutely ensure for itself a firm foothold in the fierce competition, and to exert all its efforts to avoid failure.

1. Perfect the institutions, go the scientific road in bank administration. The difference between the proprietary rights to the assets and the managerial rights should be distinctly clarified. The proprietary rights to the assets belong to the general assembly of shareholders. All important questions in the business operations and management of the enterprise are decided by resolutions of the board of directors. Success or failure of the enterprise operations are also a responsibility of the entire body of shareholders. For the specific management of enterprise affairs, the system shall be one of general manager responsibility, the general manager acting under the guidance of the board of directors.

2. Capital funds should be increased soonest, having the banks become as soon as possible internationally recognized banks. In December of 1987, the supervisory committee of the Bank for International Settlements officially published for the benefit of the international monetary community an "Agreement on Uniform International Valuation of Capital and on Capital Standards." According to this agreement, all banks engaged in international business operations must achieve by the year 1992 the standards prescribed in the agreement. In it, the standard ratio between capital and risk-weighted assets is 8 percent. If the commercial banks wish to expand into international business, they must make efforts to achieve the said standard. On the basis of state-owned capital, the commercial banks may solicit share subscriptions from local governments, departments, and from business and institutional enterprise units, to increase their capital.

3. Actively institute controls over the assets-liabilities ratio by observing the principles of restricting capital fund use according to the state of capital fund sources, maintain an equilibrium between assets and liabilities, regard safety and economic benefits as equally important, pay equal attention to own benefits and societal benefits; exert efforts to reduce risks in credit capital and enhance the economic benefits from the use of capital funds.

IV. The Problem of Supplementary Reforms in Related Areas

Converting the specialized banks into socialist commercial banks constitutes an extremely far-reaching change in China's economic foundation, a change that has wide-ranging effects and will cause a great shock, and also a change that will require supplementary reforms in many sectors.

First, formation and development of a money market with a set of perfect rules and regulations, a money market which is rationally set up, deregulated, and unified throughout the country. In view of the present realities, structuring and developing a money market must concentrate efforts mainly on the following four areas:

A. A further expansion of the market for interbank borrowing, and to move monetary activities between the various specialized banks as soon as possible toward the market; vigorous development of the bond market; vigorous and steadfast promotion of stock markets; vigorously sustained opening up of foreign exchange markets.

Following the initiation of the market economy system, opening up the economy to the outside world will in future accelerate further, and the process of internationalization of monetary affairs will also accelerate. Foreign-financed monetary organizations will greatly increase, foreign trade interchanges will continuously grow, foreign-trade enterprises will tend to rapidly develop, and for all these reasons an extensive opening up of the foreign exchange market appears extremely urgent and important.

B. Stepping up modification of the government's functions. In China, the specialized banks have all along been used by government agencies as tools to promote economic development. The specialized banks are accustomed to rely on government agencies for the recovery of loans and accumulation of capital. Government agencies, in turn, have expected the specialized banks to supply money for economic development. The influence of government agencies on the specialized banks has been strong and effective, while resistance of the specialized banks against government interferences has been weak and ineffective. After conversion of the specialized banks into commercial banks, this situation is bound to change fundamentally. The new situation will demand of the government agencies to thoroughly revise their concepts and modify their functions, and to fully recognize that credit capital is in essence not state capital, but enterprise capital, that it is not a relief fund, but commodity capital. It demands recognition that value accretion by profits at average market rates is necessary and that government agencies must not interfere improperly.

C. Strengthening the buildup and standardization of the legal system concerning monetary matters, restraining and protecting all business activities of commercial banks in the various markets. At present, China's legislation on financial matters is by far lagging behind the reform of the entire financial system. Up to now, there has not been one law on the various aspects of finance. This is far from what the establishment of socialist commercial banks demands.

AGRICULTURE

Agricultural Output for First Half 1993 Reported

94CE0007H Beijing JINGJI CANKAO BAO in Chinese
5 Sep 93 p 1

[Summary] According to the Ministry of Agriculture, summer grain output this year may reach 108,067,000 tons, an increase of 3.4 million tons over 1992. The early rice area was 119 million mu, a decrease of 12,170,000 mu from 1992, and gross output totaled 42,264,000 tons, a decrease of 5,190,000 tons from 1992. It is estimated that the autumn grain area will decline by about 20 million mu, and gross output will decline by 20 billion jin.

Meat output was 15,467,000 tons, a 6.3 percent increase over the same period in 1992; milk output was 2,778,000 tons, a 3 percent increase; egg output was 3,908,000 tons, a 9.3 percent increase. Gross output of aquatic products in the first half of 1993 may reach 6,030,000 tons, an increase of 710,000 tons, or 13 percent. The spring and summer produce area was about 50 million mu, and estimated gross output is about 80 million tons.

In the first half of 1993 the gross output value of town and township enterprises may reach 866 billion yuan, a 74 percent increase over the same period in 1992.

Banks Provide Heilongjiang Wheat Procurement Funds

94CE0007I Harbin HEILONGJIANG RIBAO
in Chinese 15 Aug 93 p 1

[Summary] Concerned departments have received 71 million yuan from agricultural banks in Heilongjiang to ensure wheat procurement. This year Heilongjiang will need 1.14 billion yuan for wheat procurement; provincial agricultural banks are responsible for 300 million yuan, accounting for 26 percent of the total.

Shandong Autumn Crop Area Delineated

94CE0007J Jinan DAZHONG RIBAO in Chinese
19 Aug 93 p 6

[Summary] This year the autumn crop area in Shandong Province will total 101,470,000 mu, of this the grain area will be 60,320,000 mu, an increase of 3,520,000 mu over 1992. The cash crop area will be 31,940,000 mu, a decrease of 3,770,000 mu. Of grain crops, the corn area will be 36,990,000 mu, an increase of 1,810,000 mu; sweet potatoes 10,520,000 mu, an increase of 480,000 mu; soybean area 7,330,000 mu, an increase of nearly 4 million mu; rice area 1,830,000 mu, an increase of 50,000 mu; millet 1,520,000 mu, a decrease of 130,000 mu; sorghum 610,000 mu, a decrease of 150,000 mu; and other grains 1,510,000 mu, an increase of 710,000 mu. Of cash crops, the peanut area will be 11,390,000 mu, an increase of 910,000 mu.

Dissidents' Status, Returning Home Discussed

93CM0375A Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 6, 18 Jun 93 pp 91-93

[Article by North America special correspondent Yu Tzu (3945 1311), appearing in the "Democracy Movement" special column: "Princeton June Fourth Roundtable Meeting: Democracy Movement Figures Want To Return Home"]

[Text] On the eve of 4 June, various democracy movement figures at a meeting in Princeton discussed the question of returning to China. Several of them advocated returning to China by breaking the blockade without public disclosure, and in recent years there have been many democracy movement figures who have successfully gone in and come out of the mainland.

Returning to China has recently become the most popular topic of conversation among students studying abroad and new emigrants from the mainland.

For many of them, with regard to returning to China, there are different ideas, different objectives, and also different worries. Some want to return to China to visit relatives, some want to return to China to get rich, some want to return to China to glorify their forefathers by great achievements, and some want to return to China to break the law; still others simply cannot get by abroad and want to return to China to look for a new means of livelihood.

From 1 to 3 June 1993, a group of democracy movement figures exiled overseas held, at Princeton University, a discussion meeting with the topic "how to end the exile life." On two walls of the meeting place there was the same poster in red and white: **We Will Be Smiling When We Return Home.**

Ministries of Public Security, State Security Play Different Roles

One year after June Fourth the Chinese communist authorities, who had secured their position with alarm and bewilderment, suddenly came to realize how stupid their past policies were. The democracy movement figures who one by one had been arrested and brought to justice had become "hot potatoes," not only making them heroes in the eyes of the common people but also the international community's condemnation.

Therefore, the Beijing authorities began to implement a different policy: turning a blind eye to the democracy movement elements who went into exile, and even encouraging those who remained in China and hold different political views to leave the country. According to Zhou Yongjun [6650 0516 6511], chairman of the (?Alliance of College Students for Freedom and Democracy) [Gao Zi Lian 7559 5261 5114], who recently fled China, two different departments in the Chinese communist regime have done two diametrically opposite things: the Ministry of Public Security is trying to arrest the democracy movement elements and put them in prison;

the Ministry of State Security is trying with all its might to send the democracy movement elements out of the country. Under the same party Central Committee leadership, the battle of wits and resolve between these two departments is as if they were playing a game of cat and mouse. Is this alarmist talk? Not a bit. By sending into exile those who hold different political views, the Chinese communist authorities kill two birds with one stone. On the one hand, they isolate "disturbing factors" under their very noses by sending them abroad, both getting a good name for "making progress in human rights" and ensuring domestic "stability and unity." On the other hand, in a planned manner conveying out of the country a large number of democracy movement, who are of "noble character and high prestige," creates for the democracy movement abroad situation in which "the monks are many and the gruel is meager" and "the water is shallow and the turtles are many"—not enough to go around—and aggravates the internal struggles in democracy movement organizations. As expected, following the pouring abroad of more and more well-known dissidents, in contending for limited political and economic resources, the internal struggles in the democracy movement is becoming white-hot. The Beijing authorities are only too glad "to watch a fire from the other side of the river"—look on at its troubles with indifference—and wait for the overseas democracy movement to collapse of itself.

After the Fang Lizhi [2455 0536 0037] affair, the number of people with different political views and democracy movement figures who have left the country and are held up abroad are no more than several dozen. Among them are some who fled the country illegally, for instance, Zhang Baili [1728 0184 4567], Liang Er [4731 0059], Xiong Yan [3574 3508], Zhao Pinlu [6392 0756 3406], Zhou Yongjun [6650 0516 6511], Zheng Yi [6774 5030], and Tang Baiqiao [0781 2672 2890]; there are also some who have left the country by legal means or through legal procedures, e.g., Gao Xin [7559 2450], Zhou Duo [6650 5305], Yao Yongzhan [1202 0516 2069], Zhang Wei [1728 3555], Han Dengfang [7281 2639 2455], Liu Qing [0491 7230], Wang Ruowang [3769 5387 2598], Li Jinjin [2621 6651 6651], Zhang Weiguo [1728 0251 0948], Zhu Xingqing [2612 2622 3237], Liu Xiaobo [0491 2556 3134], Guo Luoji [6753 5012 1015], Wang Ruoshui [3769 5387 3055], etc.

However, for the Chinese Communist authorities, there is also a painful topic. That they have no choice but to play, with its many twists and turns, a "cat and mouse" game is because they cannot publicly encourage the dissidents to leave the country. Wouldn't this encourage the dissidents to make trouble?

Living Space for Democracy Movement Becoming Smaller and Smaller

Now, the people abroad who are generally described as "democracy movement figures" are roughly composed of the following types:

First, there are the backbone elements who left the country before 4 June and when abroad joined democracy movement organizations. For example: Wang Bingzhang [3769 3521 4545], Xu Bangtai [1776 6721 3141], Hu Ping [5170 1627], Ding Chu [0002 2806], Yu Dahai [0060 1129 3189], Ni Yuxian [0242 5148 6343], Yang Manke [2799 3355 0460], and Zheng Weimin [6774 3634 3046].

Second, there are backbone elements of the Association for Freedom and Democracy and other democracy movement organizations that sprang up before and after 4 June. For example: Liu Yongchuan [0491 3057 1557], Han Lianchao [7281 5114] 3390], Chen Xingyu [7115 5281 1342], Zhao Haiqing [6392 3189 7230], Li Sanyuan [2621 0005 0337], Geng Xiao [5105 2556], Dong Qiqi [5516 1142 0366], and Wang Jian'an [3769 1696 1344].

Third, there are those who fled the mainland after the 4 June massacre and who were put on the wanted list. For example: Zi Ling [4793 3781], Li Lu [2621 6922], Wu Wu [0710 2976], Wang Runnan [5502 3387 0589], Yan Jiaqi [0917 1367 0366], Chen Yizi [7115 0001 6171], Yue Wu [1491 2976], and Zhang Baili [1728 0184 4567].

Fourth, there are those who hold different political views and who before and after 4 June, by legal or illegal means, left the country and are held up abroad and do not return. For example: Shu Xiaokang [5685 2556 1660], Chen Tong [3088 4592], as well as all those mentioned previously.

Now, this group of democracy movement figures are held up abroad. Except for students abroad who still can earn their own living, the greater part of the remainder are famous figures for whom survival has become a problem, and among them are those who depend on Taiwan's financial aid to support themselves. However, with the decline of the non-mainland faction after the 14th Congress of the Kuomintang (KMT), there is a possibility that even these limited resources could "run out of food."

For this group of democracy movement figures what is most important is not only a deficiency in resources and having to live in poverty; what is more important is that, with the narrowing of their stage, there will be nothing else they can do. Being far away from the Communist Party, they are not in a position to fully retaliate, not in a position to display their ability, not in a position to let off their energy, and not in a position to make their manifested desires appear. In the end they will be utterly helpless to avoid being drawn into internal friction.

Following the appearance of relative stability in the domestic situation, the prestige of the democracy movement has become low. Many men of insight know that if they cannot take action of a breakthrough nature, the fate of the democracy movement abroad can only be that of being worried to death in other lands. They think of playing one card: the card of returning to China.

At the Princeton meeting they played this card.

Many Who Were Prohibited From Returning to China Have Done So Successfully

On the eve of the fourth anniversary of "June Fourth," Wei Jianxing [1414 0256 5887], spokesman of the Chinese Communist judicial departments, announced several types of persons who have been prohibited from returning to China, including: those who were on the wanted list after 4 June; those who colluded with foreign countries to harm the state's interests (obviously meaning the democracy movement figures who went about drumming up support in Western countries for the idea of effecting economic retaliation against China); leaders of hostile organizations abroad; and those who, after fomenting domestic upheaval, fled the country.

At the same time Wei Jianxing announced a policy of forgiveness for some other people, for example: people who, in the 4 June period, took part in antigovernment demonstrations or who joined antigovernment organizations; those who illegally left the country to seek political asylum; as well as member, even backbone elements, of hostile organizations abroad who have withdrawn from these organizations. Wei Jianxing's statement was carried on the front page of the 2 June edition of the American newspaper SHIJIE RIBAO, and it became the main topic of discussion at the Princeton roundtable meeting. All people who took part in the meeting had a copy of Wei Jianxing's statement.

Wei's statement at this critical juncture greatly puzzled many people. Some people conjectured that this was the Chinese Communist authorities' formal response to the overseas democracy movement figures' playing the "return to China" card. Before this the Beijing official sources had never clearly announced which types of exiles were not allowed to enter China. But, over the past two years, there have really been many democracy movement figures of the types mentioned by Wei who have succeeded in going in and coming out of the mainland.

For example: Yang Manke and Chen Shuqing [7115 2118 1987], members of the United Committee of Democracy and Student Movements (UCDSM); Zheng Weimin, chairman of the Democratic Party; Lin Wei [2651 0251], general secretary of the Free Democratic Party; Dong Qiqi, director of the Students' Alliance for Freedom and Democracy; Huang Rongyang [7806 1369 2799] of the (Monitoring Council) [Jian Shi 4148 0057]; Li Sanyuan, director of Radio "Voice of June Fourth"; Yang Xianzhi [2799 0341 2535], director of the German branch of the UCDSM; Qing Tianqi [1987 1131 3825], chairman of the German branch of the (Democratic Front) [Min Zhen 3046 7109]; and Chen Tong, chairman of the China Foundation for Democracy—all of them have successfully gone to the mainland and safely left it. Of them Zheng Weimin and Li Sanyuan have found on the mainland units that employ them as commercial representatives stationed abroad.

None of these people, when returning to China, publicly stated that they would withdraw from "reactionary organizations," and some of them still engage in democracy

movement activities. Also, among them there is no lack of those who advocate the extremist theory of violent revolution; for example, Zheng Weimin and Dong Qiqi, who, after 4 June, loudly called for the use of violence to overthrow the Communist Party, and even severely criticized the nonviolent moderate program of the UCDSM and the (Democratic Front). Long before he returned to China, Chen Tong actively canvassed the U.S. Congress in support of adding conditions to the most-favored nation treatment of China, and took part in activities to boycott China's slave-labor products.

In brief, since Gong Xiaoxia [7895 1420 1115] and Ni Yuxian, there have been no cases of people being refused entry to China, so that for a very long time people have thought that even the student leaders who were put on the wanted list after 4 June, if they dared to try to quietly return to China, would not face action taken by the authorities.

Therefore, many people think that this statement of Wei Jianxing's was really a bad move by the Chinese Communists. It just gives the overseas democracy movement figures an opportunity and reason to seize on an incident and exaggerate it, and gives those who originally did not have one a target for their arrows.

Different Positions of Three Factions on Returning to China

A total of 30 to 40 persons took part in the Princeton meeting, basically being the abovementioned four types of democracy movement figures. Their statements and debates at the meeting can be regarded as the epitome of several different opinions by the overseas democracy movement on the question of "returning to China."

Those making statements at the meeting can be divided into three types:

Some people look upon their return to China as a political move with a symbolic meaning. Therefore, they advocate "charging the barrier," and want, through returning to China, to shake up the domestic political situation. Representatives of this opinion are Zi Ling, Li Lu, Liang Er, and Xin Ku [6580 5388]—all student leaders on the wanted list—who could be called the "barrier-charging" faction. They are all on the wanted list. Therefore, whether they can "return to China smiling" possesses political significance for them. These people were the initiators of the Princeton meeting, and, from the meeting's topics and slogans to the statement passed afterward, their views were basically dominant.

Some other people oppose the "barrier-charging" political tyros. They advocate that without the slightest disclosure one enter China and engage in down-to-earth organizational operations and student activities, organizing the common people to oppose the Chinese Communist dictatorial regime. This position is represented by Zhou Yongjun, Zhao Pinlu, Chen Tong, and Tang Baiqiao. They are basically democracy movement elements who have carried out secret activities on the

mainland. Although they have been imprisoned or have illegally left the country, they have not been formally put on the wanted list, and it is still uncertain whether they can legally enter China. For them, emphasizing their dignity probably means they will not be able to pass through the national gateway, but if they abandon their smiles they probably can succeed in returning to China. Therefore, they advocate the political meaning, not the symbolic meaning, of returning to China. These people can be called "the practical faction."

The third type of opinion perhaps has no clear advocate and representative, but is basic tendency is to hope not to bring to the question of returning to China an excessively strong political flavor, and at best handle it in a light way. Abroad the greater part of democracy movement figures are "self-exiles." Only if they abandon their "self-exile" can they mingle with the common people and legally go to the mainland, and be like those abovementioned backbones of the democracy movement organizations who have returned to China. Perhaps many of them have begun to not plan to return to China and engage in political activities, but rather plan to return to China to visit relatives or engage in business. However, provided there is an environment in which they are free to come and go, won't this be convenient for what they want to do later? This faction can be called the "free faction."

The Best Thing Is To Be Like the "Eight Immortals Crossing the Sea, Each One Showing His or Her Special Prowess"

In the end the meeting passed a statement, the basic contents of which are as follows: 1) returning to one's country is a citizen's basic right; 2) the exiled figures abroad want to return to China with dignity, and are striving to bring about the conditions for doing so; and 3) the Chinese Communist authorities are called upon to give a positive response to them and to reevaluate the "89 Democracy Movement." Some of the people at the meeting signed this statement.

Someone who attended the meeting and who did not sign the statement said to this writer: "I did not sign this statement because I really plan to return to China. If I had signed this statement demanding a return to China, I could not do so. Don't you think this logic is a little strange?"

Someone else who was at the meeting and did not sign the statement, pointing to the big slogan, "We want to return to China smiling," said: "This slogan shows that the attitude of the initiators of this meeting was abnormal, and that they always consider themselves to be more special than ordinary people. Actually, if they would consider themselves to be ordinary people and mingle with ordinary people, they probably also would return to China soon."

Zi Ling, who presided over the meeting, time and again appealed to everybody to seek common ground while reserving differences. As a matter of fact, different

people are in different difficult circumstances; what need is there to demand that they seek common ground? If one truly wants to return to China, there is always a way. Not everyone has the money to "charge the barrier," and not everyone needs, before returning to China, to demand that he return with dignity. It is best to be like "the Eight Immortals crossing the sea, each displaying his or her special prowess."

Amusement Business Tops Growing Culture Markets

93CM0456A Beijing JINGJI RIBAO
in Chinese 17 Aug 93 p 5

[Article by Zhao Baochen (6392 1405 2525): "What Businesses Are At the Top of Culture Markets?"]

[Text] *All daily consumption can be divided into the two categories: spiritual and material. As we are now treating literary and art works as commodities, this consumerism is turning the spiritual into the material.*

In 14 years of reform and opening, China's cultural establishment has undergone a great change, bringing the timely emergence of socialist culture markets. Through many years of effort, a culture market system of diverse categories, levels, and economic components, as well as a culture market business network covering cities throughout China, is now evolving. The culture sector did an overall accounting in 1991, finding 2,771 state literature and art performance groups, 20 TV production studios, over 700 book and audio-video publishers, more than 3,000 audio-video publishers, over 60,000 recording projection units, more than 18,000 dancehalls and karaoke parlors, over 87,000 entertainment sites, and more than 3,000 art galleries and shops. These state culture production and business operations provide the public with a great amount of spiritual-culture products and literary services, with culture markets increasingly becoming an organic component part of our great social market. Data published by the State Statistical Bureau show that urban residents spent about 20 percent more on recreational articles, books, newspapers, and magazines, and entertainment expenses in 1991 than in 1990, with rural residents spending 11.6 percent more on entertainment expenses in 1991 than in 1990. While it is estimated that these growth rates were much higher still in 1992, the entertainment spending of urban and rural residents throughout China is still generally less than 1 percent of overall capital goods spending. This shows that China's culture consumption level remains quite low.

Statistics show that culture markets are growing steadily in 1993, leading to projections that culture market consumption for 1993 will continue its upward trend.

The fastest culture market consumption growth in 1993 is in the amusement and audio-video businesses. In recent years, as individual cash incomes, consumer mindsets, cultural concepts, and lifestyles have changed, and public amusement interest and focus have shifted, people are no longer regarding dancing, going to movies, and watching

videos as simply diversions, but are also treating them as a means and forms of social intercourse. High-class luxury amusement parlors in many large and mid-size cities combine singing, dancing, and video projection, developing in the direction of diverse events and functions and multipurpose operations. These conditions are spreading from the coast into the interior, and while having local differences and distinctive features, they are identical in that the more comprehensive and high-class the culture amusement service program, the more the consumer interest is aroused. Taking the karaoke parlors in large and mid-size cities for example, while the room prices vary from 180 yuan an hour to thousands of yuan an evening, business in these high-class luxury karaoke song-and-dance parlors is still sizzling. Since large and mid-size amusement parlors are so profitable, they have become a focus of rivalry with tertiary industries run by many domestic enterprises and institutions, as well as a category of interest to certain foreign investors.

Audio-video business consumption growth is inseparable from the dissemination of household electronics. Tape recorders have made their way into all urban and rural homes, and nearly 10 million VCRs are now owned in China. Karaoke machines, laser song disks, and film discs are in some urban homes, and video cassette sales and rental services are spreading to cities and towns. Audio-video tape rentals and sales can be said to have entered a peak period. The laser song and movie disc market is now rising quietly. With the large inflow of foreign laser movies and karaoke discs, video projection is also quite brisk. However, as domestic audio-video production manufacturing capability is still low, imported tapes from Hong Kong, Taiwan, and overseas make up over 90 percent. Large-scale smuggling and illegal copying of audio-video tapes is clashing sharply with the domestic audio-video business.

While movie and play attendance is down, particularly in large and mid-size cities, there is still a potential market in rural and remote border regions due to the sparsity of cultural activities there, so that popular urban theater groups are playing in the countryside, as they can still find good audiences in small and mid-size towns and villages. Meanwhile, large audiences are seen at performances by famous domestic and foreign singing and movie stars, and at sports, fashion, body-building, and even beauty contests. Watching TV plays, including those on TV stations and cable-TV networks, is popular among urban residents. While reform of our cultural performance group system and film industry, as well as the renovation of theaters and movie houses throughout China may improve this situation somewhat, it will be impossible to return to the golden age of plays and films of the 1980s. The diversification of the public culture-consumption mindset is an inescapable reality.

Painting and calligraphy collection and trading, including markets, such as mailings, are also seeing brisk buying and selling along with the heating up of stocks and bonds.

Public Security To Enhance Anti-Smuggling Effort

93CM0448B Beijing RENMIN GONGAN BAO
in Chinese 27 Jul 93 p 1

[Article by Shao Qing (6730 3237): "Public Security Organs Throughout China Have Achieved Marked Anti-Smuggling Successes, Anti-Smuggling Work Will Be Further Enhanced"]

[Text] I learned from the public security conference on anti-smuggling held on 22 July that public security organs are going to enhance their anti-smuggling efforts by cracking down on smuggling more forcefully, by rectifying the maritime anti-smuggling order, and by better managing public security anti-smuggling patrols.

Leading comrades, such as Minister of Public Security Tao Siju, vice ministers Tian Qiyu and Bai Jingfu, and ministerial assistants Li Runsen [2621 3387 2773] and Li Jizhou [2621 4764 0719], as well as the departmental and bureau public security directors from the 11 coastal provinces, autonomous regions, and municipalities, all attended this conference. Bai Jingfu passed on the spirit of the orders by Party Central Committee and State Council leaders on anti-smuggling efforts.

It is understood that public security organs have achieved marked anti-smuggling successes in 1993. In the first 5 months, they broke 875 smuggling cases, including 165 major ones involving over 1 million yuan each, or 1.6 times as many such cases broken in all of 1992; they seized 357 smuggling boats, of which 71 were foreign-owned; they arrested 1,200 smugglers; they confiscated 187,812 cartons of cigarettes, 3,216 cars, 28,132 electronics items, such as color TVs, air conditioners, and computers, as well as a large group of other goods, with an overall value of 1.046 billion yuan, or 71.7 percent of the value of all such smuggled goods seized in 1992.

But maritime smuggling activities are still very severe: smuggling is steadily expanding in scope, with smuggling activities on foreign boats rampant; certain government and institutional units are smuggling in collusion with foreign elements, which is occurring in huge numbers, with clearly increasing numbers of major and significant cases; smuggling activities are becoming increasingly gang-related, internationalized, better equipped with modern technology, and diverse in methods.

Tao Siju emphasized at the conference that: We need to understand the crackdown on smuggling from the high plane of anti-corruption and safeguarding the success of reform and opening. In order to reverse the current rampant situation of smuggling activities, we need to first focus our efforts on dealing with a number of major cases. No matter what unit or individual is involved, we need to get to the bottom of it. We must deal with smuggling offenders strictly in accordance with law, in order to break down their arrogance. Public security organs must control anti-smuggling patrols strictly,

acting strictly in accordance with pertinent laws and regulations, with non anti-smuggling departments forbidden to take part in anti-smuggling. Severe violations of law and discipline must be conscientiously investigated and dealt with strictly in accordance with law, with this matter being made one of the key items in the enhancement of our public security ranks.

PLA Weapons Development Requirements, Trends

93CM0449A Beijing XIANDAI BINGQI [MODERN WEAPONRY] in Chinese No 6, 8 Jun 93 pp 6-7

[Article by Ma Fajing (7456 3127 4842), Dan Yuntian (0830 0061 3944), and Song Jie (1345 2638): "A Discussion of PLA Weapons Development Problems"]

[Text] An overview of the current international situation shows that while Eastern European political conditions have changed drastically, the Soviet Union has broken up and the Cold War has ended. All countries, whether developed ones led by the United States or typical developing ones, are drawing on the Gulf War experience by making great efforts to adjust their command structures and military establishments, not hesitating to sharply cut back their military personnel numbers and largely eliminate existing weapons, in an effort to focus their manpower and material resources on new developments in high-tech weaponry. In this sense, the new round of the arms race is being launched from a higher level and starting point. While this competition apparently seems to be proceeding with little fuss, it is actually more intense and threatening. So we must approach this aggressive international situation, taking full advantage of the current golden opportunity where it is more relaxed and favorable to China's peaceful development. We must take effective steps to begin solving long-range PLA development problems and settling PLA weapons development issues, which is the only way to seize the initiative and establish an invincible position. As to our current national macroclimate, the key factors affecting and limiting PLA weapons development are:

- 1) The relatively peaceful international climate and our friendly relations with our neighbors are providing fine external conditions for PLA weapons development.
- 2) While China's economic development status quo is providing an opportunity for PLA weapons development, it is also producing certain restraint forces.
- 3) While China's S&T, particularly high-tech developments, are providing more favorable technical conditions for the development and production of new PLA weaponry, China's relative scientific backwardness and not too solid technical base are also putting great limitations on our widespread application of new technology.
- 4) The relative backwardness of PLA weaponry, with the great quantities and varieties of equipment involved, will also have a significant impact on further weapons development.

This means that PLA weapons development should take the following key countermeasures:

Weapons development must adopt the guiding principle of ensuring priorities. As to aircraft for instance, a single advanced fighter can cost as much as \$50-100 million on the international market. If China were to develop a multiple-use fighter with performance similar to the Soviet (MIG)-27 or the U.S. F-15, even at China's lower prices the model development could cost as much as 2 billion yuan, putting the mass production price as high as 100-150 million yuan each. Even a small mass production of 200 aircraft would cost as much as 25 billion yuan. Even at a development and production cycle of 10 years, the outlay would average 2.5 billion yuan a year. These figures still do not include such an aircraft's safety equipment and backup costs. So it is obvious that with China's limited national resources, plans for weapons development and production certainly can focus only on priority categories and models, meaning that we must avoid by all means trying to take up every aspect or average out the deployment of our military might.

Based on the data on hand and in light of recent international experience in typical limited warfare, the weapons development priorities for all PLA branches should be: the army should develop the three categories of tactical ground-to-ground, air-defense, and anti-tank missiles; the navy should develop new guided-missile destroyers, with the proper and appropriate equipment quantities, in which naval vessels, in addition to being equipped with more advanced offensive weapons, should also have an improved air-defense combat system, forming a group air-defense and naval warfare capability in order to give the Chinese navy a certain deterrent force; our airforce and navy air arms should focus on development of a multi-use, long-distance fighter-bomber, to be equipped with advanced weapons, such as medium-range interceptor and short-range combat guided missiles, air-to-ground missiles, and laser-guided bombs, in order to give them the capability of defending China's air and sea space; and all security troops should emphasize intelligence and command-communications equipment development, to ensure that the PLA has reliable intelligence and command communications systems, in order to turn PLA combat potential into real combat effectiveness.

While some in academic and media circles have proceeded in recent years from China's seagoing combat needs to advocate that China begin to develop an aircraft carrier, we hold this to be inappropriate as follows. 1. As an aircraft carrier would be a major project involving shipping and aviation engineering and a series of weapons systems, China's current policy of focusing on economic development would make it impossible to overconcentrate manpower, material, and particularly technical forces on the development of such a complex project. 2. As to economic guarantees, it would be either an unbearable burden or not worth the effort. The current international cost of building an aircraft carrier

is as high as \$4-6 billion (including the aircraft). Projections are that Chinese development would cost about 10-15 billion yuan (for a moderately advanced level), or possibly even more. Spending such a huge sum to build an aircraft carrier would obviously be inadvisable. Spending the same amount to develop a multi-use fighter and a naval combat force would produce a stronger combat effectiveness and more weaponry.

Newly developed weapons must use as many high-tech developments as possible, with higher beginnings and more advanced performance. A look at the world's developed nations and quite a few developing countries shows that all are putting a lot of money and effort into high-tech weapons. The Gulf War proved that neither a rich country without a strong military or a strong military without advanced-performance weapons will do. PLA weapons are now roughly 15-20 years behind those of advanced nations. In order to do all possible to shrink this gap, we will have to dare in our new equipment development to employ high technology to push forward into the high-tech fields of advanced nations. Only in this way can PLA weapons reach a new level and PLA deterrent and combat capabilities be sharply improved. Of course, our high-tech development of new weapons should observe the principle of self-sufficiency combined with technology import. For instance, in the 1980s, in order to change PLA aviation equipment research and production backwardness, we adopted the method of imports combined with self-development to set up scientific production lines for certain equipment, which obviously shrunk the gap between the technical level of PLA equipment and advanced foreign technology.

National limitations will keep PLA equipment from being completely upgraded to a technologically-advanced and superior-performance level in the short term. So while emphasizing new-model development, we need to organize a certain amount of force to upgrade with one or more new technologies existing weapons that still have a certain amount of advancement and upgrading value, giving them a medium degree of advancement to keep them in service, which after all is a good way of improving weapons. In recent decades, The Chinese Air Force has upgraded the technology of our Jian (F)-7 fighter, having developed combat and training models in the F-7 series.

We must pay particular attention to intelligence and command-communications system equipment development to improve the PLA's overall combat capability. As to overall military equipment systems, weapons with hard antipersonnel and destructive capabilities are only the feet and hands of a military giant; command, control, communications, and intelligence systems are the eyes, ears, nervous system, and brain. Advanced foreign countries have used high technology to vigorously develop the C³I system, which combines the four key combat links of command, control, communications, and intelligence into an organic whole, so that command units have a timely grasp of ever-changing conditions and complex

battle situations, enabling them to see the overall situation, devise strategies, and exercise accurate and effective organizational command. We recommend making command, control, communications, and intelligence system development and research the primary task in PLA weapons development. We need to organize the pertinent R&D crack troops to tackle the crucial C³I technology, in an attempt in a very short time to computerize PLA intelligence and communications systems; we need to achieve automatic intelligence recording and transmission; we need to put through an all-military automatic phone system; and we need to make widespread use of microwave and electronic-transmission communications so that our senior command organs have a fully workable computerized communications system. Moreover, we need to do advance research on C³I system development priority projects.

We need to enhance the reliability, serviceability, and design completeness of our new weapons R&D. Only in this way can we ensure that newly-armed military units immediately have combat effectiveness and good applied performance. When designing a new weapons system, we must base our actions on designated basic factors (such as bulk, weight, supply model, and service pattern), to give overall consideration to things such as shipping, spare parts supply, service of instruments, meters, and tools, special equipment for component repair, environmental facilities requirements, fire-fighting facilities, and other equipment and materials needed for special operations. Based on the varying requirements for equipment adaptation, multi-guarantee equipment, and rear-area repair of security equipment, we need to simultaneously design and develop finalized equipment designs. Once new weapons go into service, they should be accompanied by all proper security equipment and facilities, so that they will have good usability, serviceability, and safety.

Discussion of A-5 II Fighter Upgrade

93CM0448A Beijing XIANDAI BINGQI [MODERN WEAPONRY] in Chinese No 7, 8 Jul 93 pp 4-5

[Article by Mao Jingli (3029 2529 4539): "Replacing the Old With the New—on Upgrading China's Qiang (A)-5 II Aircraft"]

[Text] The Chinese Air Force has worked in cooperation with the French Thomson and Sargem companies to upgrade the Qiang-5 II [A-5 II] attack plane, which was tested successfully in 1991. The upgraded version was named the A-5K attacker. The successful upgrading of this aircraft has opened up a new route for the Chinese Air Force to upgrade its active aircraft and raise its combat capability, which is a key development direction in the Chinese Air Force's equipment modernization.

Why We Upgraded the Aircraft

The A-5 II is a single-seat dual-engine supersonic attack plane whose mission is to support ground troop combat by attacking and destroying key enemy land and sea targets.

While high-tech developments have promoted multi-level, three-dimensional, overlapping air defense systems, no matter how advanced the air defense system, they all have a fatal weakness—difficulty in finding low-altitude flight targets, with a low percentage of weapon hits. So in order for an attack plane to complete its mission, by entering the target zone, it must first have a strong low-altitude defense capability. In addition, the suddenness and destructiveness of modern warfare requires attack planes have single-strike success in attacks on targets.

While the A-5 II has a good medium- and low-altitude flight capability and can be quickly controlled, its low-altitude defense and single-strike capabilities are poor, its navigation precision is low, and its fire control equipment is outdated, which show up mainly in sharp course, time, and target errors. Such lack of precision makes it very hard to find and attack ground targets.

So upgrading the A-5 II's navigation and fire control systems, as well as its low altitude defense and single-strike capabilities, is a necessity of modern warfare and self-survival.

How We Upgraded the Aircraft

First, the A-5 II base was equipped with an additional inertial guidance/attack system. Through testing, it was decided to first use the French Thomson and Sargem companies' ULISS91 inertial guidance system, VE110 level-sight (heads-up) display equipment, and TMV630 laser range-finder.

The ULISS91 inertial guidance system. This system can independently and promptly provide diverse information, such as aircraft position, course, attitude, flight path, ground speed, wind direction, remaining flight distance, and remaining flight time, having intercontinental flight capability, and being able to complete high-precision, independent global navigation. It ends the A-5 II's history of varying parameters provided by different equipment and dependence on ground guidance and compass navigation.

The inertial guidance system is an acceleration receptor, with its provided figures having become the benchmark for arms sighting and circulation, sharply raising arms attack precision. In conjunction with heads-up displays, it can use bombs, rockets, and guided missiles for continuous computer-guided attacks on ground targets, in either direct-strike or indirect-strike (covert targets) form.

The VE110 heads-up display. This display equipment can display within the field of vision control, sighting, and attack information or symbols in a real external

setting. Pilots can use heads-up displays to easily, accurately, naturally, and directly obtain essential data for attacks on ground targets, as well as for continuous computer course display of pre-angled sightings for forceful attacks on aerial targets. But the A-5 II's optical sighting equipment could display only sighting crosses and simple symbols, providing single data. Pilots when attacking had to keep the cross on the target, while watching many other instruments to obtain essential information, often forfeiting combat opportunities for inability to pay attention to everything at once.

The TWV630 laser range-finder. This is used to measure aircraft distance from ground target and attack start, and to correct navigation errors, in order to improve navigation and attack precision. This is exceptionally favorable to attacks on ground targets, particularly mountainous ones. But the A-5 II did not have range-finding equipment, lowering its firing and bombing precision.

The A-5K combines the computerized inertial guidance system, heads-up display equipment, and laser range-finder to form its aircraft inertial guidance/attack system. This system's software not only meets the needs of current A-5 II arms, but also can be used for new weapons deployment development.

The Results of the Upgrade

A certain airforce unit with real combat experience found after instrument computerization that in an attack on a 100-m concrete highway bridge, the A-5 II could destroy only one-half of the bridge arches in one regimental attack (24 sorties), while the A-5K could instantly destroy the whole bridge with only two sorties. This shows that one A-5K equipped with the French inertial guidance/attack system has eleven times the attack impact of an A-5 II, which can be seen mainly as follows:

Improved guidance capability. As all course geographical coordinates can be stored in advance on the ground in the MIP board, the pilot needs only insert the MIP into the PAN guidance/attack board before the flight, for all course coordinates to be automatically installed in the guidance system, making complex navigation calculations unnecessary. In flight, the pilot needs only set ground speed indicator to course indicator to accurately navigate on course, making it easy to change course and routings.

Stronger low-altitude defense and single-strike capabilities. As the A-5 II aircraft uses a compass and clock as navigation equipment, making course assumptions based on wind force and directions forecast by ground meteorological observatories, its flight course corrections are subject to many errors and little accuracy, while the A-5K can accurately measure sidewind data, compute navigation parameters, and promptly correct course, which reduces inertial guidance errors. Flight results show that the A-5 II is subject to 7 percent navigation errors, which figure is only 0.1 percent for the A-5K, giving it 700 percent greater accuracy. For instance, in a 600-km flight, the A-5 II makes a 42-km error, which error is only 0.6 km for the A-5K. So it is hard for the A-5 II to find its target on a low-altitude defense mission. Finding targets requires flying at higher altitudes. The A-5K has a strong target-finding capability, so that it can fly at lower altitudes, making it hard to see on enemy radar, and can use low-altitude high-speed defense, which improves its low-altitude defense capability.

In defense, A-5 II pilots often use the vertical-power method, which is certainly not advantageous to self-preservation. If the horizontal-power method is adopted, the plane may go off course, creating renavigation difficulties. But the A-5K can compute and correct course rapidly, enter the target zone from any direction, and make a single entry.

As the A-5K's inertial guidance system provides wind parameters, its range-finder accurately measures distances, and its heads-up display equipment provides diverse attack and aiming modes, pilots operate by the heads-up display "indicators," ensuring that the craft smoothly enters the attack mode. As it can adopt diverse attack modes, plus the accurate trajectory computerization in its inertial guidance/attack system, this ensures it a higher attack hit rate. So the A-5K's one-time discovery, entry, and hitting give it the combined impact of a single-strike capability.

Improved safety. As the heads-up display, in addition to displaying data on operations, such as navigation, attack, and landing, also shows danger warning signals, prompting pilots to take timely countermeasures, it gives the A-5K improved safety.

CENTRAL-SOUTH REGION

Editorial in Hunan Daily on Fighting Corruption

93CM0450A Changsha HUNAN RIBAO
in Chinese 25 Aug 93 p 1

[Editorial: "Effectively Expand the Anti-Corruption Struggle"]

[Text] At the Second Plenary Session of the Central Disciplinary Inspection Commission, comrade Jiang Zemin made a very important speech urging all party and government officials to further and successfully pursue the anti-corruption drive as a major political task, and show notable results in the shortest possible time. This wise policy decision and the strategic plan of the central party authorities has won the approval of party members and the people. It is of the greatest importance that we set a correct tendency for the party and strengthen the building of clean government and promote reform and opening up and socialist modernization. All Hunan party organs, especially those leading organs above the level of prefectures and municipalities, must unify in their thinking, forming a common understanding to respond positively to the Central Party's orders, and firmly and efficiently carry out the anti-corruption struggle.

Comrade Deng Xiaoping has repeatedly stressed that the anti-corruption struggle must be carried out thoroughly in the process of reform and opening up. Comrade Jiang Zemin has stated time and again that we must be resolute and make efficiently waging war on corruption a major task in building the party and political power and winning the confidence of the people. The central authorities have always had a firm attitude where corruption is concerned. All party commissions have taken many correct measures, with definite achievements, to strengthen building the party's tendencies and clean government. Practice has demonstrated the correctness of the party line and the essential goodness of party members, and has shown that most party cadres are honest in performing their official duties. But corrupt practices do exist in the party and in government organizations; some of these are quite serious, while some are growing and expanding. To list some examples of these corrupt practices: transactions involving the use of power for private benefits; the commercialization of power; graft and bribery; spending public money on food and drink, sending gifts and paying for trips; going in for ostentation and extravagance, displaying wealth and luxuriousness; wastefulness; illegal levies, illegal penalties and the pervasive practice of collecting fees for public services that should be free; making appointments by favoritism and replacing law with power; and "checkbook journalism" in press circles. All people with breadth of vision worry about these corrupt practices and all people hate them bitterly. Now it is time for us must make up our minds to resolve these problems.

Waging the anti-corruption struggle is a set requirement for implementing the basic line of the party, and is an

important guarantee for focusing on economic development. After implementing reform and opening up, the party has been faced with two rigorous tests: one is whether we can succeed in developing the economy; the other is whether the tendency of the party will break down. Both tests relate to success or failure and the party's life or death. Led by Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics and the party's fundamental line, our economy has flourished. According to the development strategy of "taking three steps", we have taken the second step, which is in a situation which encourages a rapid rate of development. We can say we have responded well to the first test; but we have yet to respond to the second test satisfactorily. If we cannot bear the second test, we will not bear the first test at all; if the tendency of the party slips down, if negative corrupt practices run rampant, the economy will decline as well. Corruption is a virus attacking the party and the government. If we neglect it, letting it run rampant, and fail in our anti-corruption struggle, then we will lose favor with Party members and the people, our Party will be out of power, the people's political power will come to a premature end, and our socialist modernization will be irrevocably lost. This is not alarmist talk. We need a clear understanding of the serious harm that comes from corruption and urge responsibility and urgency in resolving the corruption problem. We must carry out the anti-corruption struggle with a clear-cut stand, with justice on our side and with one heart and one mind.

To be successful in our anti-corruption struggle, we must focus on practical work, but not linger on general orders, and still less go through the motions. Practice tells us that there are considerable differences between working on the corruption problem or not, attacking it truly or falsely, and dealing with it strictly or flexibly. Now, the Party central authorities have issued orders to all Party members and the nation, and have made unified plans. We must work practically to ensure the strategic plans of the Party central authorities are implemented. According to these plans, the anti-corruption struggle will focus on three aspects in the near term: First, all Party and governmental leaders must discipline themselves and be models of integrity and honesty, and super leaders of the Party and government above the level of provinces or ministries in particular set an example and take the lead; second, concentrate on investigating a group of major and important cases, with the key cases being those which involve party and government leading organizations and personnel of law enforcement departments, administrative enforcement departments, and economic administrative departments; and third, come to close grips with outstanding problems in local areas and units, stopping some of the most unsatisfactory unhealthy tendencies among the masses. Moreover, there must be obvious progress within a year. These several tasks must really be up to the mark and performed with absolutely nothing false, consciously and firmly, in order to win the people's approval through actual deeds, and to encourage Party members and the people.

he war on corruption is a difficult assignment, and it must be led by the party's central authorities, with the entire Party mobilized, and carried out inside both the party and the government, starting from super leaders and local people. It will be performed well only through higher level departments controlling departments at lower levels. All party commissions, the government and responsible departments must assume responsibilities, especially chairmen of the party commissions and government. We must consciously study Comrade Deng Xiaoping's series of important expositions on correcting the party's tendency, strengthening the building of clean government, and opposing corruption. We must study the important speech of comrade Jiang Zemin in order to acquire higher knowledge, major decisions on appropriate methods and powerful steps to bring to a good resolution the corruption problems which exist in local areas and local units. We deeply believe that with powerful leadership from the central party, with a real effort from all party commissions, government, and responsible departments, and with strong support from the people, we will succeed in this anti-corruption struggle.

Editorial in Hubei Daily Urges Democracy, Law
93CM0450B Wuhan HUBEI RIBAO
in Chinese 7 Aug 93 p 1

[Editorial: "Thoroughly Implement Democracy; Be In Strict Accordance With the Law"]

[Text] The Hubei Party Committee and government have announced that the election for the new session of the People's Congress in Hubei's counties and towns' will soon be carried out thoroughly. This is another major event in the political life of Hubei's populace, and it is our earnest hope that this election will be a successful one.

The National People's Congress system is China's basic political system, and the election system is an important component of our socialist democratic political system. In this election for a new session, the mass of the people will choose deputies to the National People's Congress through a legal electoral procedure to organize the power organs of the state at the county and town level to manage the affairs of the nation and of society, administer economic and cultural matters, protecting the ability of all people to be masters of the state, and carry out national power in a united manner. Another important mission of this election for a new session is to appoint a leading body for county and town political power through the People's Congress of counties and towns, selecting cadres of excellence who will carry out the party's fundamental line in an exemplary way, who have outstanding achievements in their official careers, who are bold in reform and enthusiastic for creating leading bodies. Recently, the provincial party committee and government decided upon a series of major and important policies and principles for accelerating the pace of reform and opening up for better promoting Hubei's economy to climb to a higher level more rapidly. After a decision is made on which line to follow, the cadres

are the decisive factor. Conscientious implementation of the election for the new session is of great significance for further strengthening construction of local political power and promoting reform and opening up and further building Hubei's economy, in order to bring people's lives up to the "relatively well-off" level as early as possible.

Under the necessary precondition of party leadership, adherence to the principles of democracy and law is a fundamental characteristic of our socialist democratic policy, and is an item of basic experience gained from all past elections for new sessions. Adhering to the principle of democracy means thoroughly implementing democracy in order to ensure that the great majority of citizens use their voting rights equally, practicing democracy throughout the entire election procedure for a new session. From delegates nominating and recommending candidates, and determination through consultation, to elections for leaders of power organs, every link must represent the people's opinions and demands, thoroughly respectful of the democratic rights of the people and their representatives. One means of accomplishing this is to conduct widespread propaganda and education, to give voters a correct awareness of their democratic electoral rights so that they will cherish those rights and enthusiastically participate in the election. A second way is to do a good job of introducing the candidates, making the voters and their representatives aware not just of the candidates' names but also of their detailed situations. A third is to respect the right of more than 10 voters and representatives to join together and nominate their own candidates. Finally, a fourth is to persist in balanced elections. To implement democracy thoroughly, we must adhere to the principle of law and deal with all things in strict accordance with the law. Democracy is the basis of law, and the law is the guarantee of democracy. There must be an emphasis on dealing with everything in accordance with the Constitution, the election laws, and local organizations' laws. As for such inappropriate phenomena as canvassing for votes, forming factions, instructing the voters or inciting them or telling them to vote a certain way—these activities must be corrected as soon as they are discovered. There must be no leniency for those who break the law in this way; for those who wish to disrupt the election, we must apply sanctions against them in accordance with the law, really acting through dependence on the law, applying the law and applying sanctions against those who violate it.

The provincial election for the new session in counties and towns is a short-term, important task, and is powerful in both policy and law. However, if we truly strengthen the leadership of the party, while the entire Standing Committee of the National People's Congress, the leading group in the election of a new session, and the election committee consciously carry out their responsibilities, organize meticulously, make careful arrangements, strengthen supervision, and persist in implementing democracy thoroughly, dealing with everything in strict accordance with the law, then we will certainly succeed in the election of a new session.

DPP Seeking Support of Local Factions

93CM0444A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 333, 31 Jul 93 pp 48-50

[Article by Ch'en Chien-hsun: "The DPP's Battle Plan and Defection-Inciting Tactics Relating to the County Magistrate and Mayoral Elections"]

[Text] The Democratic Progressive Party [DPP] is implementing a large-scale "open conspiracy" plan through elections, and the target is the local factions which have maintained deep connections with the Kuomintang [KMT].

In terms of organizational mobilizations for the county magistrate and mayoral elections to be held toward the end of this year, the DPP has in fact merged such mobilization efforts with the activities relating to the elections of township and town chiefs and members of county and city parliaments. Such a strategy will inevitably result in forming ties with the various local factions.

According to a source, working inside its organization, the DPP is formulating a plan according to which the operations of nominating candidates for members of county and city parliaments and township and town chiefs will be carried out at an earlier date in order that the candidates can start working around the country at an early date before the county magistrate and mayoral elections, and would thus also be able to serve as pawns for the county magistrate and mayoral candidates.

According to Lin Cheng-i, director of the DPP Organizational Department, as comparative analysis would show, the DPP was almost totally unable to find people to run at the localities before the grassroots level elections of the year 79 of the republic, and the number of people who actually ran equalled only one-fourth of the number of seats open for election. Things are totally different this year. According to preliminary estimates based on recent DPP internal surveys, the number of people who intend to run in the grassroots level elections next year equals one-third to one-half of the number of seats open for election in the localities. In this respect, Taichung City has 43 seats open for election, but already there are over 20 DPP members who intend to run.

As most of the county magistrate and mayoral elections have become one-on-one battles, it would be necessary to get more than a half of the votes in order to get elected. In view of this situation, it will not be enough to just use the DPP candidates in the grassroots level elections next year as pawns. Consequently, the DPP will take the initiative in winning over independent or KMT candidates in the grassroots level elections. The method is to exchange "politely giving away" or "summoning" in the next year's elections for those candidates' support for, and cooperation with, DPP county magistrate and mayoral candidates this year.

Such local maneuvering will be carried out over a period of time before the county magistrate and mayoral elections, and will have impact on the county magistrate and mayoral elections. But, basically, such an election war doctrine is very different from the past approach; in the past, from the time of the Dangwai to the time of the DPP, the main battle field was always in the area of propaganda. According to Lin Cheng-i, the DPP's current war doctrine guiding organizational mobilizations is to "win over people" in the localities.

According to DPP Chairman Hsu Hsin-liang, the DPP's strategy of seeking the support of local factions so as to ensure the winning of this year's county magistrate and mayoral elections is already an "open conspiracy." In fact, Hsu Hsin-liang is not only directing this adjustment of war doctrine, but also playing the role of a practitioner, directly engaging in efforts to incite local factions to defect at various localities.

According to a source, in the last three months, Hsu Hsin-liang has often, personally or indirectly, got in touch with people of the local factions, through exploiting the conflicts between factions produced by the nominating of KMT county magistrate and mayoral candidates.

The series of defection-inciting activities began to be revealed only after Hsu Hsin-liang got into touch with Provincial Parliament Member Chou Hsi-man, of the Su faction of eastern Hsinchu, in Hsinchu County. According to a source, Chou Hsi-man took the initiative in contacting the DPP Central Headquarters which then arranged a meeting between Chou and Hsu Hsin-liang, only after knowing that the KMT was extremely likely to nominate Cheng Yung-chin, speaker of the County Parliament. According to Chang Hsueh-shun, chairman of the DPP Hsinchu county headquarters, this ploy used by Chou Hsi-man appears to indicate the possibility of defecting to the DPP, but is in fact only a part of a power game and was used for the purpose of applying pressure on the KMT in relation to the nomination.

During the meeting with Hsu Hsin-liang, Chou Hsi-man repeatedly complained about the unfairness in the KMT's nominating process; in the meantime, Hsu Hsin-liang also told Chou Hsi-man that if Chou Hsi-man was not nominated, he would be invited to do mobilization work to provide full support for Hsinchu County Magistrate Fan Chen-tsung, a DPP member.

The Hsinfu Group's Ch'en Cheng-k'uan, the godfather of the Lin faction of Chiayi County, got into touch with Hsu Hsin-liang because He Chia-jung, also of the Lin faction, was able to run as a DPP candidate; Ch'en also got Hsu's support.

According to a source, the Hsinfu Group's main business is exporting hoisting jacks to the United States; and National Assembly Member Hsu P'i-lung was in the scrape metal business in the United States in the early years and thus knew Ch'en Cheng-k'uan. Later, when Hsu P'i-lung was the secretary general of the democratic

movement's overseas organization headed by Hsu Hsin-liang, Ch'en Cheng-k'uan met with Hsu Hsin-liang in the United States.

This time, in the process of nominating Chiayi County's DPP candidates, there occurred problems with He Chia-jung's candidate eligibility because he had not been a DPP member for a year. But, the locally registered DPP candidates, Huang Hui-huang and Hsu Neng-t'ung, were not strong, and thus local figures hoped that He Chia-jung would also be able to run. However, Hsu P'i-lung expressed strong objections because he believed that He Chia-jung had been a KMT agent working outside the parliament; as a result, local DPP people also expressed doubts on this issue.

After finding out that his own faction's godfather, Ch'en Cheng-k'uan, was Hsu P'i-lung's old acquaintance, He Chia-jung decided to exploit this connection so as to make Hsu P'i-lung show some special consideration and be less strongly opposed to his nomination. Meanwhile, Ch'en Cheng-k'uan also called Hsu Hsin-liang on the phone in mid-June, sharing with Hsu Hsin-liang his analysis of the election situation in Chiayi County and recommending that He Chia-jung be allowed to run.

In addition, Liao Chi-ch'eng, leader of the black faction of Taichung County, also got into touch with Hsu Hsin-liang through contacting Lin Feng-hsi, chairman of the DPP county headquarters.

As pointed out, Hsu Hsin-liang once met with Liao Chi-ch'eng during a visit to Taichung, under the arrangement made by Lin Feng-hsi. During the meeting, Liao Chi-ch'eng repeatedly attacked the KMT and the red faction, while Hsu Hsin-liang, in talking to Liao Chi-ch'eng, specifically raised the question as to why Liao Chi-ch'eng, who had been a successful businessman around the world, was not successful in Taiwan. Hsu Hsin-liang expressed the hope that Liao Chi-ch'eng would think about this question and other issues, and would stop supporting the KMT in elections. In the meeting Hsu Hsin-liang also indicated the possibility of supporting Liao Chi-ch'eng in his effort to run for the speaker of the next session, but Liao Chi-ch'eng did not make any response. The DPP's Taichung county candidate Yang Chia-you and other participants of the meeting have confirmed that such a meeting did take place, but Hsu Hsin-liang himself has denied that there was such a meeting.

According to a source, as county magistrates and mayors control the power over local project budgets totaling hundreds of millions of dollars and personnel appointments, they can exchange favors with others, by only making some effort in regard to the distribution of benefits, and they do not have to commit embezzlements

in such a process. Therefore, when local faction figures begin to get into touch with the DPP and indicate the intention to support DPP candidates, they hold bargaining chips hidden under the table.

The basic purpose of the series of defection-inciting activities carried out by Hsu Hsin-liang has been to destroy the cooperation between all the local factions and the KMT so as to sow division between the two sides, through telling the local factions long dependent on the KMT that in fact the KMT is no longer able to give them anything. According to a source, Hsu Hsin-liang is carrying out such efforts under an overall plan, and is not targeting only a few election districts. He is personally making effort to seek advice from people in view of the different situations of the districts, and does not have special aides in this respect.

The DPP has always adhered to the guiding principle according to which the road to power is to win the presidential election. But, in practice, if there occur doubts concerning the relationship between the DPP's conduct and policy because things are not handled well, then there can be impact on the final result. Especially, the contacts with local factions have aroused attention from people outside the party.

According to Hsu Hsin-liang, now the DPP will absolutely not give up the local factions, but the contacts between the DPP and the local factions will not be a matter of interest distribution, but a matter of making the local faction figures understand the overall interests so that the local factions can make their own choice. As Lin Cheng-i has also pointed out, in proceeding with the effort to have contacts with the local factions, the DPP now will make sure that the local factions will not feel that the DPP will compete with them as soon as it becomes a strong force; instead, the DPP will coexist with the local factions on the basis of the idea of a local community forged by common destiny.

The interactions between the DPP and the local factions are unavoidable if the DPP wants to become the ruling party. Some people believe that "a certain kind of people would keep a certain kind of birds." If the DPP is also developing ties with the local factions as the KMT has done, then the DPP will also, as the KMT, have complicated relationships with the local factions after the DPP comes to power. But, according to some other people, the DPP's overall strength and local governing capability can force the local factions cooperating with the DPP to gradually move toward meeting the DPP's standards on political figures, and such development will have positive impact in terms of improving local factional politics. Things can develop in either of the two directions discussed above; the key lies in how properly the DPP leaders will handle this matter.

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